

JPRS-CAR-93-036  
3 June 1993



**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

# ***JPRS Report***

# **China**

19980518 255

DTIC QUALITY INSPECTED 2

**DISTRIBUTION STATEMENT A**

Approved for public release;  
Distribution Unlimited

REPRODUCED BY  
U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL INFORMATION SERVICE  
SPRINGFIELD, VA 22161

# China

JPRS-CAR-93-036

## CONTENTS

3 June 1993

### ECONOMIC

#### PROVINCIAL

Xiamen SEZ Shortcomings, Opportunities Examined .....	1
Opens Up to Inland Areas [Hong Kong CHING CHI TAO PAO 12 Apr] .....	1
Ways To Finance Infrastructure [Hong Kong CHING CHI TAO PAO 12 Apr] .....	2
Xiamen's Future Examined [Hong Kong CHING CHI TAO PAO 12 Apr] .....	3

#### FINANCE, BANKING

Stock Market Management Organization Issues [CAIMAO JINGJI 11 Jan] .....	5
Shareholding System Needs Legal Protection [GUANGMING RIBAO 1 Mar] .....	8

#### FOREIGN TRADE, INVESTMENT

Review of Japanese Investment Issues [Hong Kong CHING CHI TAO PAO 12 Apr] .....	9
Joint Venture Bankruptcy Legislation Needed [GUOJI MAOYI WENTI 30 Mar] .....	10
Trade Agreement Between Hong Kong, Yili, Kazakhstan [ZHONGGUO QINGNIAN BAO 27 Mar] .....	14
Expert Opinions on Korgas as Special Trade City [ZHONGGUO QINGNIAN BAO 27 Mar] .....	14
Potential Border Trade in Korgas [ZHONGGUO QINGNIAN BAO 27 Mar] .....	16

#### AGRICULTURE

Decontrol of Cotton Marketing, Futures Trading Urged [CAIMAO JINGJI 11 Mar] .....	18
Grain Trade Reform in Hunan, Hubei Surveyed [ZHONGGUO NONGCUN JINGJI 20 Feb] .....	24
Potential GATT Impact on Farm Products Trade [ZHONGGUO NONGCUN JINGJI 20 Mar] ....	27

#### MILITARY, PUBLIC SECURITY

Rise of Yu Yongbo to GPD Director Examined [Hong Kong KUANG-CHIAO CHING 16 Mar] .....	34
Description of Type 704 Artillery-Locating Radar [BINGQI ZHISHI 15 Mar] .....	37
Continued Importance of Conventional Deterrents [XIANDAI BINGQI 8 Mar] .....	38
PAP Commander on Improving Armed Police Work [RENMIN GONGAN BAO 25 Mar] .....	40
Gearing Military-Run Enterprises to Market Economy [RENMIN GONGAN BAO 25 Mar] .....	40

## PROVINCIAL

### Xiamen SEZ Shortcomings, Opportunities Examined

#### Opens Up to Inland Areas

93CE0483A Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese  
No 14, 12 Apr 93 pp 3-4

[Article: "Fujian Province's Strategy To Apply Opening to the Outside World to Inland Areas Moves Ahead"]

[Text] Seizes Opportunities To Accelerate Development

1992 was a year of major advances for Fujian Province. In a speech to the NPC, Governor Jia Qinglin [6328 1947 2651] said that four major changes in Fujian's economy occurred in 1992 as follows:

First, its economy went from steady upturn to high-speed development, GNP increasing 21.7 percent over the previous year. This was the highest growth year since the beginning of reform and opening to the outside world, and much more than the average 11.5 percent growth rate of the previous 14 years.

Second, substantial advances were made in market-oriented reforms. In particular, major advances were made in state-owned enterprise reforms in which the transformation of the operating mechanism was the focus. It was a year in which both the intensity of reform and the actions taken were greatest.

Third, opening to the outside world moved to a higher level in every regard, a series of policy measures for opening to the outside world being promoted from coastal areas to along rivers, along transportation arteries, and along the borders of the province. The amount of foreign capital taken in was greater than the total for the previous 13 years of reform and opening to the outside world.

Fourth was a marked rise in the people's standard of living, the per capita net income for use in payment of living expenses of city and town residents and of the peasants increasing 20.2 and 15.8 percent respectively.

Governor Jia said that Fujian Province has readjusted both its Eighth Five-Year Plan and its 10-Year Plan in light of the 14th Party Congress' call for accelerated development, actual implementation to be somewhat faster to realize a quadrupling of GNP in 1993 and attainment of a comfortably well-off standard of living by 1996. Seizing opportunities to speed up development is of greatest importance to realization of this combat goal. In addition to the opportunities that it shares with the country as a whole, Fujian has its own distinctive advantages as well, which are also distinctive opportunities. These are the advantages and opportunities that derive from Fujianese living in Hong Kong and Taiwan. Seizing this uncommon opportunity, and diligently

working to make the most of it is of crucial importance to the further advance of Fujian's economy.

#### Main Ways To Expand Opening to the Outside World

At the recently held Fujian Provincial People's Congress, Governor Jia Qinglin said that the future strategy for developing Fujian is "develop the northern and southern parts of the province, make the central region flourish, develop contiguous areas, coordinate development of mountainous regions and the seacoast, and common development." Specifically, the emphasis is to be on the development and opening to the outside world of the southeast seacoast, using the Xiamen Special Economic Zone [SEZ] as the turnkey for accelerated development of the Xiamen, Zhangzhou, and Quanzhou areas, and the lower reaches of the Min Jiang and Meizhou Bay for the gradual building of a booming economic region on both sides of the Taiwan Strait.

Since the end of 1992, the State Council has given the go-ahead to a series of continuous policies for the widening of Fujian's opening to the outside world. The main substance and measures to be taken in Fujian's widening of its opening to the outside world are as follows:

Establishment of the 0.6 square kilometer Xiamen-Xiangyu bonded area in which customs control is to be mainly the same as what the State Council has approved for the Waigaojiao bonded area in Shanghai. All other controls are to be according to prevailing Xiamen SEZ policy.

Establishment of a Fuzhou bonded area covering a 1.8 square kilometer area in the northern part of the Fuzhou Economic and Technical Development Zone. Customs control and financial and foreign exchange controls are to be similar to those that apply to the Dalian bonded area. All other controls are to be according to policies that apply to the Economic and Technical Development Zone.

Establishment of a 78 square kilometer Xiamen-Jimei Taiwan-Investment Zone to include the two towns of Jimei and Houqi, the policies of the Xiamen SEZ to apply to Taiwan-funded enterprises within the zone.

The Fuzhou Economic and Technology Development Zone, which extends to the Kuaian sub-district, is to be increased from the present 4.4 square kilometers to 10 square kilometers, the policies of the economic and technology development zone applying to it.

Establishment of a Rongqiao Economic and Technology Development Zone and a Dongshan Economic and Technology Development Zone at Fuqing, each covering a 10 square kilometer in which the policy for economic and technology development zones in coastal cities open to the outside world of a 15 percent reduction in the income tax rate for foreign-owned productive enterprises applies.

Sanming, Nanping, and Longyan Prefectures, and Fuan City and Fuding County in Ningde Prefecture are designated coastal economic development zones in which all policies for economic zones open to the outside world apply.

#### **Movement Inland From the Seacoast**

Acting in the spirit of the State Council's approval, Fujian Province has proposed revision and improvement of the province's overall pattern of opening to the outside world, implementing a strategic advance in the opening to the outside world from coastal areas to inland mountain regions. It has drawn up measures for implementing this policy as follows:

1. It has decided to make Sanming, Longyan, and Nanping hubs for the opening to the outside world of inland mountain regions, to improve the importation of goods, capital, and technology from abroad and cooperation with inland units, and to accelerate the development of resources in order to translate the advantages that inland mountain regions enjoy in resources into commodities that can be used to advantage for the development of an export-oriented economy.
2. It is to concentrate energies on the building of 34 large and medium size projects, particularly in the transportation, communications, and energy fields, to improve infrastructure.
3. Using large scale projects as a focus, it is to use many methods and many channels to attract traders for the widening of the opening to the outside world, and to expand the areas of foreign trader investment. It will actively run pilot projects for a foreign-funded enterprise registration system for further widening of the use of foreign capital.
4. Expansion of the "multicomponent" international market to expand foreign exchange earnings from exports. The provincial government recently drew up for inauguration a new foreign trade system reform plan to invigorate enterprises.
5. More reforms that improve the market mechanism over a period of time, encouragement to state-owned enterprises to phase in direct contacts with the outside world, movement into international markets, spread of state-owned enterprises' transplantation of the successful management experiences of the three kinds of partially or wholly foreign-owned enterprises, energetic fostering and development of entrepreneurial groups, and development of the market system.
6. Acceleration of the change of government functions, the better to serve promotion of the opening to the outside world, with governments and agencies at all levels improving their service concepts, using separation of government administration and enterprise management, and the principle of retrenchment, integration,

and high efficiency to accelerate the change of government functions, the better to serve promotion of the opening to the outside world.

#### **Ways To Finance Infrastructure**

93CE0483B Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese  
No 14, 12 Apr 93 pp 4-5

[Article by Hao Xiao (6787 4562): "Fujian's Economic Development To Be Powered by Finance—An Interview With New Fujian Vice-Governor Liu Mingkang (0491 2494 1660)"]

#### **[Text] Bank Manager Becomes Vice Governor**

After his election as vice governor of Fujian Province at the first meeting of the Eighth Fujian People's Congress in January 1993, some people said of Liu Mingkang, who had not yet fully relinquished his duties as manager of the Fujian Province Branch of the Bank of China, that his election will give powerful stimulus to financial reforms in Fujian Province, which are now underway.

Liu Mingkang, who took office only slightly more than a month ago, talked with me about financial trends in both Fujian Province and the country as a whole. He seemed to have a well-thought-out plan and full confidence.

Reportedly, a division of labor has already been decided on for Fujian Province's new government teams. Liu Mingkang is responsible for finance, for the building of infrastructure, and for land and real estate planning and control. It is readily apparent from this assignment to such hot issues that Fujian Province, from top to bottom, has great expectations of him. It is generally felt that Liu Mingkang, who speaks fluent English, and holds a masters degree in industrial and commercial administration and management from London University will be a pioneering kind of leader.

Liu Mingkang said straightforwardly: "I think finance is very important, and I have a great deal of confidence that financial reform will be successful." He believes that a lot of work must be done to build finance and banking itself, that there is much experience both inside and outside the country that can be put to good use, and that many tools are available within the country to do it. The mainland finance business today is still under a part market economy and part planned economy system. It is still in a situation in which legal rules and regulations are not soundly based, reform must be carried further, and techniques for regulating and controlling the modernization of the entire economy are still not very effective. Therefore, the importance of planning must be emphasized; one cannot fail to control the two sluice gates of macroeconomic regulation: total credit and total cash investment. However, if one pays attention only to scale and loses flexibility, that will not be consistent with the objective laws of economic development today. Concrete problems should be concretely analyzed. Many

areas require one's own efforts and innovation. It is necessary to be able to maintain effective macroeconomic regulation and control, and also invigorate the economy. He capsulized the scale of credit about which everyone is so concerned as follows: It is necessary to have a theory about the scale of credit, but a theory about scale is not enough. The emphasis must be on one's own efforts. With effort, new advances can be made.

#### **Considerable Progress in Finance in Fujian**

The reason that the development of finance in Fujian Province in recent years provides very good conditions and a platform for reform and opening to the outside world, as well as for the building of the economy, lies in the province's diverse ways of raising money.

Liu Mingkang said that Fujian Province's financial assets are very well developed today. The amount of credit issued each year is increasing by a substantial percentage. Since opening in the early 1980s of the first foreign-owned bank in Xiamen, Xiamen has come to be a place that has a substantial concentration of foreign-owned banks. Today, eight foreign-owned banks and one Sino-foreign joint venture bank are operating there. In Fuzhou, three joint-venture banks are also operating: the Xiamen International Bank, the Jiyou Bank, and the Xiamen Asia Bank, and a foreign joint venture leasing company has also been set up there. In addition, the Bank of Communications and Fujian's own Xingye Bank are in operation. Finance has developed greatly in both cities and rural villages.

In addition, the negotiable securities and insurance businesses have advanced by leaps and bounds. As of the end of 1992, Fujian Province had approved 10 share system pilot project enterprises, and Fujian will quicken the pace of reform during 1993, between 200 and 300 enterprises transforming their operating mechanisms. The shares of many premier enterprises will also be put on the open market. In addition to its traditional business, the insurance business has added medical insurance, old age care insurance, comprehensive protection insurance, and insurance for taking risks. These have played a very great role in response to the new situation in reform and opening to the outside world and development of the rural economy.

#### **Raising Money in Many Quarters for the Building of Infrastructure**

1993 is a year for the building of infrastructure in Fujian. Plans for the year call for more than 30 large and medium size capital construction projects, more than 10 of which are to come on stream during the same year, and will require a investment of several billion yuan during the year. In discussing the money for these projects, Liu Mingkang said that raising such an enormous amount of money would be very difficult. In addition to support from higher authority, it was hoped that the problem might be solved through three avenues, namely the importation of foreign capital, foreign borrowing, and drawing on joint investment funds from

within the country. Foreign borrowing will be used for projects producing foreign exchange that have the ability to repay foreign exchange. International market interest rates are fairly low at the present time, so they offer an opportunity to raise money. Some preferential credit repayment periods are also fairly long; thus, they are extremely favorable for the building of infrastructure. For projects that have a domestic market, every effort is to be made to obtain money through joint investment from within the country, and to make full use of bonds and publicly floated shares in the use of multiple avenues for raising funds. Fujian must also make use of the advantages it has in the form of many emigrants living in Hong Kong, Macao, Taiwan, in overseas Chinese communities, and abroad to attract capital from outside the country. He feels that if these several avenues are used properly, construction funds for the "infrastructure year" can be raised.

#### **Banks To Be a Superb Money Market Medium**

Liu Mingkang's view of finance is that banks should not only play their former role in receiving and paying out money and doing accounting, but should manage money for the public at large. They should become a superb money market medium. Banks financial tools should be of many different kinds and contain many different components. The Fujian Province branch of the Bank of China did much outstandingly effective work in the building of provincial infrastructure and key products during the period he served there. He believes that finance can play a very great role in Fujian's future reform.

#### **Xiamen's Future Examined**

93CE0483C Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese  
No 14, 12 Apr 93 pp 5-7

[Article by Ren Zhen (0117 4176): "What Card Should the Xiamen SEZ Play Next?—Five Doctors From Xiamen University's Economics Institute Survey the Problem"]

[Text] A new surge of reform and opening to the outside world has appeared. Whether the Xiamen SEZ will be able to seize the opportunity to do more great deeds is a matter about which people in all walks of life are concerned today. Five doctors from Xiamen University who are deeply concerned about and personally involved in the building of the SEZ expressed their ideas freely in response to an invitation from the XIAMEN TEQU GONGREN BAO [XIAMEN SEZ WORKERS' DAILY], and I have collated their statements below.

#### **Another Backward Glance: Intolerable Self-Satisfaction**

Chen Yongjun (7115 3941 6511] (Doctor of Economics): Ordinary folk regard Shenzhen's rise as a miracle in China's economic development, and thus the people of Shenzhen have felt arrogant and self-satisfied for a time. However, a 1992 comparison shows the gross

output value of resurgent inland industry and agriculture to be four times that of Shenzhen. Thus, the people of Shenzhen are alarmed: Inland areas are on the rise; what is Shenzhen to do? This led me to a comparison of Xiamen with other SEZ's, and more particularly to a comparison with the rapid development of China's economy. Xiamen's development and position cannot compare. When Comrade Xiaoping visited Xiamen in 1984, he said: "Run the SEZ faster and better." Some people said this was an encouragement, but others said it was a goad. In short, many places are thinking about and trying to validate their position in the country. Those that are out in front are trying to get farther out in front, and those that are trailing are doing all they can to catch up. Xiamen seems not to have done enough in this regard. The frequent reporting of good news and a lack of hardships makes the oldsters in the province complacent.

Zhao Lei [6392 4320] (Doctor of Money and Banking): Many people who visit Xiamen feel there is nothing special about its special economic zone. By comparison with Guangdong, the people of Xiamen are far behind in their understanding of a commodity economy. The development of Guangdong's commodity economy is well founded. Once reform and opening to the outside world occurred, everybody adapted at once. The situation is different in Xiamen, which used to be on the front line of coastal defense. Its geographic isolation and the atmosphere of quasi-militarization have produced a distinctively regional culture in Xiamen. This "island nation" style culture has produced a distinctive social frame of mind, which rather greatly limits Xiamen in looking at problems. Where others take the initiative, we sit back and wait, pinning hopes on major advances in relations between both sides of the Taiwan Strait that will bring about Xiamen's economic development. Subjective efforts are not enough. In fact, we must clearly understand that unless Xiamen can make use of its own advantages to create conditions for an economic take-off, foreign traders will certainly detour around Xiamen and go directly inland to the vast reaches of the Chang Jiang hinterland to carry out development. Conditions in Hainan Province cannot compare with Xiamen's. Hainan used to be a barren land, both poor and blank. Haikou looked far worse than Xiamen, yet in a few short years, a modern city is rising there. In 1992, Xiamen was not among the several hot spots north, south, east and west in China. In replying to someone's question, the new Hainan Provincial CPC Committee secretary and provincial governor Ruan Chongwu [7086 1504 2976] said: "We make no promises. You just see how we work." Xiamen must realize clearly that were the SEZs to be made into inland areas, and inland areas become SEZs, after the restitution of GATT, the SEZs would have no advantages to speak of. Therefore, we should have a sense of crisis and a sense of urgency.

Zheng Zhenlong [6774 2182 7893] (Doctor of Money and Banking): In the finance business, Fuzhou's daily share trading volume comes to 10 or 20 million yuan or

a little more, while Xiamen trades only 3 to 4 million yuan worth of shares a day at best. When others are buying and selling stocks furiously, Xiamen is reviving that product of several thousand years of feudal society: tontines. It has made a mess of the SEZ of the 1990s. It does not sufficiently realize the importance of the finance business. Hainan's development is 80 percent dependent on finance. Stock issuance is an important way to bring in both foreign and domestic funds, but Xiamen has been slow to do this. The people of Xiamen are smug about Xiamen's position relative to Taiwan, but unless Xiamen develops at full speed, should the "Three Opens" [open postal, trade, and navigational ties with Taiwan] come about, Taiwan might bypass Xiamen and extend throughout the country. Therefore, in no way does Xiamen have any reason for blind optimism.

#### The SEZ Stage Should Not Perform Only Local Plays

Zhu Chongshi [2612 1504 1395] (Doctor of International Economic Law): Just where do Xiamen's advantages lie? Compared with other SEZ's, Xiamen should not just develop the way it is developing today. The key problem is that Xiamen is not regarded as a Xiamen that belongs to the whole country, but only as a Xiamen that belongs to the people of Xiamen. Xiamen should draw up a strategic plan based on its own circumstances that suits general measures to the local scene instead of blindly trying to do it all by being big and all conclusive, or small but all inclusive. It is impossible for Xiamen to achieve a complete integration like that of large cities such as Beijing, Shanghai, or Wuhan. For example, to suppose that an electronics industry can be a principal industry in Xiamen fails to consider fully Xiamen's natural conditions. Xiamen has a limited hinterland where travel is difficult making the establishment of large industries or large industrial blocs very difficult. Therefore, if Xiamen is to develop some industries of its own in a concentrated way, they will have to be mostly tertiary industries like finance, futures trading, and negotiable securities trading that can produce better returns. In Shenzhen, conditions for establishing securities trading are actually not as good as in Xiamen, because Shenzhen is too near Hong Kong and too much influenced by it. With the entry into GATT of both sides of the strait and implementation of the "Three Opens" being just around the corner, the fastest way to invest Taiwan's abundant capital is in Xiamen. Therefore, in drawing up a strategic plan, Xiamen cannot ignore its geography, its climate, its human resources, and its natural environment.

Zhao Lei: The people of Xiamen are not very good at innovation. They are unable to come up with new ideas and ingenious ideas regularly. Xiamen very much welcomes foreign capital, but it is sometimes not all that enthusiastic about domestic capital. It does not forge enough domestic ties. Shenzhen and Haikou came to play leading roles within a short time mostly by forging domestic contacts, but not only did Xiamen not create that good an investment climate, but it even worried that others might come and earn money that it might earn

itself. For Xiamen to develop, it will have to keep its eyes peeled toward the outside and toward the inside. Shenzhen and Zhuhai depended mostly on inland emigrants for their development. They blended different cultures to produce the vigor that hybrids exhibit. Hainan seems to be somewhat similar to Xiamen, but Hainan also has many people from elsewhere, so many that they joke about the mainland taking over Hainan. By contrast, not only is the number of people in Xiamen from elsewhere limited, but most of them have become homogenized; they do not shake up the original cultural mechanism here. Sole reliance on the strength of the people of Xiamen for Xiamen's development is not enough. Xiamen supposes the caliber of its talent to be fairly high, but actually it does not have enough vigor. The stage is a very good one, but there are not enough performers, and most of them are local performers who are unable to put on the exhilarating modern plays. Xiamen cannot close its doors and run its special economic zone. The human factor is paramount. Without the influx of a large body of talent, Xiamen cannot develop by leaps and bounds.

#### **Xiamen's Future Is No Dream**

Chen Yongjun: The restoration of China's GATT status and its direct participation in the great cycling of the world economy will provide opportunities and pose challenges for Xiamen. This will require that our government functional departments formulate clear development goals and prepare measures for their implementation as a matter of first importance. Second is certain policies to speed up Xiamen's becoming a free port, prompt conversion of operating mechanisms, and a change in government functions. Next is emphasis on developing education, truly implementing the spirit of science and technology as the primary source of productivity. At the same time, close attention must be given to the building of spiritual civilization, to changing people's ideas, to taking full charge and doing real deeds, and keeping one's feet firmly on the ground.

Yu Yunhui [0151 0061 6540] (Doctor of Economics): Changing people's ideas means mostly updating their outlook. They must have a forward-looking ideology. This is the only way that they can keep up, and the only way they can compete domestically and abroad. On the management of land resources, for example, they must look ahead into the next century. Xiamen can learn from Zhuhai in this regard. In the importation of capital, Xiamen must vigorously develop finance and banking. It must use both domestic and foreign capital, and it must boldly run share system pilot projects. In the use of human talent too, it would do well to openly hire people from throughout the country for the building of a human talent market. To a very large extent, it was on the basis of Xiamen's human talent that the city was given a place in the nationwide comprehensive evaluation of cities nationwide. Nevertheless, Xiamen seems not to have done enough to attract human talent. It has to take large scale action to attract bright and skilled people from all over the country.

Zhu Chongshi: Restoration of GATT status is imminent. For a port city like Xiamen that earns foreign exchange largely through exports, this provides an opportunity for Xiamen's rapid development. Since the output value of Xiamen's three kinds of partially or wholly foreign-owned enterprises accounts for more than half of Xiamen's industrial output value, their products long ago broke into the international market to compete internationally. A look at Xiamen's state-owned enterprises, however, suggests that few will be able to achieve returns to scale. Possibly it is only for just a few enterprises that an artificial separation among all industries exists today, the reason still being the obstacles that the old system puts in the way. Unless this old system is completely changed, once GATT has been restored, China's state-owned enterprises will collapse at the first blow. The urgent tasks of the moment are to rationalize the system to improve management, and the need to organize entrepreneurial groups to realize economies of scale that increase competitiveness. The facts show that the faster a market economy is built the better, the higher the caliber of enterprises, and the greater their ability to withstand onslaughts.

## **FINANCE, BANKING**

### **Stock Market Management Organization Issues**

93CE0386A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese  
No 1, 11 Jan 93 pp 36-37, 17

#### **[Text] I. Problems With Management Organizations**

Before the establishment and formal functioning of the State Council's Securities Management Committee and China's Securities Supervision Committee, the People's Bank of China and the National Economic Reform Committee together issued and transferred China's securities. During the trial period, this kind of management system was reasonable. It not only performed a strategic role in economic reform, but also took advantage of the existing organization and well trained staff of the People's Bank. However, because of the securities business' fast growth and its own characteristics, the decision of the State Council to establish a specialized organization to enhance the management of securities is very wise. The present problems are: first, the scope of responsibility and rights for the two newly established committees. We can suppose that one is responsible for macro-economic policy research and coordination, and the other is responsible for microeconomic or detailed supervision. However, the two committees are in fact managing the same kind of things but from different aspects, which are quite difficult to differentiate, but at least they are related to each other. Therefore, I estimate that in the future when they formally operate conflicts may occur. It is possible to have the situation of too many policies and political conflicts over rights. Second, the problem with China's Securities Supervision Committee's preserving its purity. At present many comrades do not want to work on the Securities Committee, and

call it "too empty," and "impractical," but they would like to work on the Securities Supervision Committee which is considered "practical," and especially "rich" when they become part of the securities issuing organizations. Thus I am afraid whether the Securities Supervision Committee will preserve its purity, and be strict with itself. If this cannot be done well, I question whether China's securities business will develop in a healthy manner. Third, the quality of the staff. The securities management staff in the United States has about 2,500 people, about 1,800 work in headquarters. Most of these people are professionals, such as lawyers, economists, financial analysts and public accountants. The securities business is very professional. Managers must be specialists. Fourth, problems with the nature of the Securities Supervision Committee. The U.S. securities organizations are independent from the government, and have professional legal rights. Our Security Supervision Committee is supposed to be a "half government and half people owned" governmental organization, but I estimate that it is difficult to maintain fairness. Fifth, problems with management goals. Securities management involves many units' interests. It requires that all work units promote their large similarities and tolerate their small differences, and realize management's goals for efficiently controlling the issue and transfer of securities, maintain the unity, consistence, stability and efficiency of the securities market, reasonably organize the securities organizations, prevent speculation, deception, manipulation and other internal manners of conduct, and protect investors' interests.

## II. Problems With Issuance Methods

Even though we have made the decision to throw away the planned economy system, and implement the socialist market economy, we still intentionally or non-intentionally keep the planned economy's ideas and methods to a great extent when we are dealing with the purely market economy's product, such as securities (stocks). For example, we are in charge of the scale of securities authorized and new issuance plans without any scientifically proven basis, while all levels of government also break the scale and plans at will. Local units and enterprises do not pay attention to the effort of stock standardization, but spend their energy on using social connections to obtain the planning quotas. Especially in situations where stock issuance prices and quantities are set up artificially before hand, by randomly purchasing stocks the new stocks issued will be partly like lottery issuances, and partly like quota assignments, which is hard to classify. The recent new stock purchasing campaigns in Shenzhen, and the rampant black market in Shanghai and other places, all firmly prove that stock purchases, random selections and quota assignments of issuances are a failure and not standardized.

Where are the problems? As far as theory is concerned, the problems stem from the way that the stock issuance practice does not follow market economic principles. One of the principles of market economy is the supply and demand principle. As far as practice is concerned, on

the surface it is the problem with the way new stocks are issued, and in fact it is a pricing problem. Why are new stock purchases so hot? This is because the issuance price and the market price are quite different. Why are the market prices several, tens of, or even hundreds of times the issuance prices? This is due to supply and demand conflicts between stocks and funds. As long as the functions of the issuing enterprises and financial conditions assure a reasonable stock issuing price, and the future of the issuing enterprises' functions and financial condition are good, then once the stocks enter the market, the stocks' price must go up. This is normal. However, under the current situation pertaining to supply and demand conflicts between stocks and funds, it is very easy to cause opportunistic actions (mainly in the form of short term buying and purchasing). According to the experiences of several historical large stock purchasing campaigns, the opportunists and inflated stock prices are always pushing each other until the stock prices are so high as to completely or mostly restrain the stock investing demand, and on the contrary being regulated to the position of basic determining factors. Before this the differences between the issuance price determined by the basic factors and the market price determined by the opportunist factors, which can be explained by Kaiensi's largely foolish theory, were always very large. Therefore, the campaign for new stock purchases also does not subside. Any issuance plan based on maintaining projected issuing prices will all lead to problems, and cause uneconomical injustices.

Therefore, the issuance price must be regulated to the market, not by offices, especially bureaucratic offices. First, the issuing enterprises should establish a basic auction price according to the basic determining factors, calling upon the security traders to compete for wholesale or retail prices, which may form the first level of issuing prices. The security traders may then market securities to investors at a price which may form the second issuing price. If the second level issuing price is estimated too high or too low, the first level issuing price must also be too high or too low. The two kinds of prices are not very different from each other. As far as the security traders' are concerned, they assume the risk, and they must accurately predict investors' demands and the stock market as a whole to earn interest. For the investor, since the issuing prices are mainly determined by market factors, which are similar to the stock market prices or transfer prices, the purchasing manner will constantly adhere to logical choices, and investment will take the place of opportunistic actions. At this time, besides the differences in economic abilities, all the uneconomical differences have been eliminated. The market principle will become paramount. There will be no crowded lines, no blackmarket, no rare prices, and even no occurrences such as the trading of stocks by social ties. Thus, to establish an authentic issuing market, the market should determine the issuing price.



### III. Problems With Internal Stocks

Some comrades consider that internally issued stocks or internal stocks are an unique product of China. This is not correct. In Japan, there is a policy for internal employees to purchase stocks. However, no matter whether in the east or the west, internal stocks should not comprise the main form of stocks. At present, based on experimental concerns our country will publicly issue stocks in Shanghai and Shenzhen, and internally issue stocks in some other places as a rare situation where internal issuances comprise the main force with public issuances supplemental.

In fact, no matter how much the government would like to establish restrictions, the stock issuance and transference will cause a large mobilization of funds. This is an objective fact. Those who issue stocks will attract and absorb other places' funds, and process local funds. To the benefit of both local levels and work units, the stock war is really a funding war. While the policy of publicly issuing stocks was only established for Shanghai and Shenzhen, and internally issued stocks were approved for other places, these other places ignored official approval procedures and applications for issuance requirements, and arbitrarily expanded the internal stocks' issuance numbers and scope employing public issuance in a disguised form to bravely prepare funds.

Therefore, for the main supervisory organizations two conflicting policies appeared: Whether to let Shanghai, Shenzhen and other places tolerate a situation where funds are flooding into the two cities in order to protect the smooth operation of the experimental work, or quietly admit local interests and fund moving principles and allow other places to completely issue stocks?

However, according to the policy at the People's Bank, internal stocks are issued to the issuing enterprises' internal employees, and this is really an internal issuance. For the issuers, the funds collected are limited. It can neither attract other places' funds, or keep local funds stable. Thus the internal bonds are meaningless.

This is really so. For example, several months before July 1992 Tianjin City approved 22 enterprises to issue internal stocks. The issuance range greatly exceeded the original issuance place and enterprises. From the northeast to Hainan, everywhere was involved with Tianjing's internal stock issuance. Any economically related enterprise or employees were all able to purchase the stocks. The so-called "economically related enterprises" do not necessarily mean that they really had any kind of economical relationship before, it includes cases where economical relationships were formed after stock purchases were made. Thus internal stocks only have an undeserved reputation, because the internal characteristics become public in a disguised form. Other places such as Chongqing, Shenyang, Xiamen all coincide with Tianjin's experience.

Since this is the truth, why not just name it in a direct way, and let it be issued publicly? The basic factor is that

public issuance requires regulation, strict requirements, and highly publicized information...All these things will benefit the investors and the stock market's development as a whole. However, the present internal issuance is very irregular: a high tendency of compensation, unpublicized information, low credit approvals, insufficient supervision, unequal investment opportunities, lack of equity, inefficient proof of premium proportional price determinants, and ugly internal deals...Therefore, it is necessary to use public issuance as the main force, seldom issuing internal stocks. The present internal stocks should become public, and future internally issued stocks should really be restricted within the enterprises themselves.

### IV. Problems With Private Stocks

At present private stocks are still not implemented openly, and bravely. One reason is that some people are afraid of the privatization trend.

I think that we are all historical materialists. We must pay attention to the facts. The stock system is a great creation and invention. Its meaning is not less important than the steam engine in the recent industrial revolution. The steam engine made it technically possible for socialized production, while the public stock issuance system makes it economically possible for socialized production.

Comrade Xiaoping said to judge whether an economic policy is good or bad, is determined if it will promote social production forces. The stock issuance system can liberate production forces, and surely promote its development. This has been proved by history and present experiences. Up to the present, human beings have not found other better managing systems. Therefore, if we are afraid of the privatization trend, our attitude is not materialistic.

Moreover, state enterprise assets belong to the country. After stock issuance reforms, the nationally owned shares belong to the country. The interest also belongs to the country, and the nationally owned shares comprise a large enough proportion of the shares to meet the requirements for controlling purposes. Unless the country itself wants to transfer, there will be no problem with the ownership of the country's production materials being transferred to the private sector. Assuming that due to market transfers or other reasons, the country losses its control over an enterprises' stock ownership, that is nothing to be afraid of. No control by the government does not mean that the enterprise is reckless. At least the enterprise has to pay taxes. Even with limited ownership of stocks, as long as there is one share, there will be one share of dividends. As long as the stock issuing companies obey the regulations, whether it is directly controlled by the government or it controlled by itself, which means indirect control, there are no significant differences. Based on the past several decades of planned economic experiences, the government would rather give away its control, transferring the existing

government owned stocks in the market to private sectors where they become privatized stocks. Since the first day of reform, did we intend to separate politics from enterprise ownership?

### Shareholding System Needs Legal Protection

93CE0334A Beijing GUANGMING RIBAO in Chinese  
1 Mar 93 p 4

[Text] I.

A few examples may enlighten readers:

In August of last year, a very crippling disturbance took place in Shenzhen because stock purchase certificates were issued unfairly. Now that has passed, and many people ask quite reasonably: If stockholders had a way to appeal, could such extreme incidents be avoided?

Shenzhen's "Yuanye Company Stock Ownership Incident" caused a furor. Concerned departments took their cases to the courts, but a series of legal procedures and a number of official seals of approval showed that areas in which the company appeared to be in violation were free of wrongdoing. What made the court's position more difficult was that there was no set of laws that covered this incident.

Not long ago, a court in one city took on this type of case: The plaintiff accused the defendant of defrauding him of 20,000 yuan. The plaintiff originally bought 10,000 shares of internal stock with a face value of 1 yuan apiece from the defendant, but paid 30,000 yuan for them. Later, when the joint-stock company was audited, the plaintiff was ordered to return the internal stocks, and was given 10,000 yuan for them. In this way, the plaintiff lost 20,000 yuan in the transaction. In anger, he brought the case to court.

### II.

Promotion of the joint-stock system was originally an important mechanism in establishing and perfecting China's market economy, and it was hoped that through this system, the following goals would be met: 1. Transform the system of managing enterprises. 2. Accumulate production capital and increase the efficiency of capital utilization. 3. Increase the operational efficiency of state-owned capital, and maintain and increase capital. But in reality, because there was no comprehensive set of laws to guide and protect the experimental areas of the joint-stock system and the circulation and issuing of shares, not only were these goals far from reachable, but a great deal of chaos resulted.

Currently, quite a number of shareholders take the attitude of "buy stocks to make money; the sooner you buy, the sooner you'll make money; the later you buy, the less you'll make." They do not understand the risks of the stock market. They do not ask about the management situation of enterprises, and as soon as they see a stock they grab it. In addition, the great majority of

stockholders buy stocks not for investment but for speculation, and they push up stock trading prices to 10 or more times the face value. This results in hundreds of millions of yuan in idle capital not going toward production through the channel of new stock issues, and it also affects the normal social and market order.

Currently, quite a number of enterprises, when issuing internal stocks to their employees and issuing corporate stocks, sell internal stocks to the public without authorization and split corporate stocks into individual stocks. All kinds of people with authority or connections reach in and make a profit from internal stocks. Other enterprises "start a trend" by imposing fairly substantial "service fees" for selling the internal stock certificates to outsiders. Some enterprises allow outsiders to handle the internal employee stock certificates, to make internal and corporate stocks heat up and become speculative. One person responsible for inspection in one of the enterprises experimenting with the joint-stock system was very frank about the above types of chaotic phenomena. But he also emphasized that supervisory departments are in an awkward position: Before inspection, enterprises swear that they are above board. After inspection, they do whatever they want. Because national and regional laws regarding the management of internal stock certificates and corporate laws on the joint-stock system have not been put forth, and because legal oversight authority over publicly-owned corporations lies with the central government, the "underground stock market" has proliferated outside the law.

### III.

To deal with the many aforementioned abuses, many experts believe that it is very necessary to establish a set of systematic laws governing joint-stock enterprises and the issuing and trading of stocks. Fang Xuxi, associate professor at Guangzhou College of Foreign Trade, told reporters: "Currently, Hong Kong has one of the most famous stock exchanges in the world, with a good reputation and high degree of efficiency. This is basically due to its comprehensive set of laws, including "Laws on Joint-Stock Enterprises," "Laws on Issuing Stocks," "Laws on Stock Trading" and so forth. China only has some administrative regulations. Because these have no legal force, problems have arisen, and legal responsibility cannot be pursued. Also, using administrative mechanisms to manage the economy has already been proven to be inefficient.

Experts believe that when ideological education and administrative and economic management methods are compared, the law is the most powerful management mechanism. A set of comprehensive laws can lead to stockholders gaining an accurate understanding of the real goals of the reform of the joint-stock system and of the issuing and circulation of stocks. The legal methods can also be used to oversee and punish illegal behavior. At the same time, the market economy is an economy based on law. The joint-stock system, an important part of the market economy, should manifest the principles of

law. The foundation of the joint-stock system is "openness, equity and fairness," which is exactly the essence of law. Experts emphasize that the many problems in the experimental areas of the joint-stock system can all be easily solved through law. They also point out that because economic development is not uniform throughout the country, some provinces with experimental joint-stock system areas can first work out regional laws that can later be used as a basis for formulating national laws.

## FOREIGN TRADE, INVESTMENT

### Review of Japanese Investment Issues

93CE0485A Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese  
No 14, 12 Apr 93 pp 26-27

[Article by Bai Chengyi (4101 2052 3823): "What Are the Characteristics and Problems of Japanese Investment in China?"]

[Text] Post-war Japanese direct investment in China has gone through an uneven path. During the short period of 13 years from 1979 to 1992, Japan experienced a zig-zagged process of initial wait-and-see period (1979-1983), development (1984-1989 spring), further observation (1989 summer-1990), and further development (1991 onward). At the same time, under the historical conditions of the late 1970s and 1980s, Japanese investment in China evolved into a basic pattern of focusing on service industries and on the southeastern coastal areas. Compared with other Asian countries, especially with Hong Kong and Taiwan of the "China Economic Ring," Japan shows the following three notable historical characteristics and weaknesses:

1. Japanese investment in China started from services and other nonlabor intensive industries, with little mutual complementary effect and insufficient development. The investment played a limited positive role in making use of the advantageous resources of China's vast labor force, job creation and capital accumulation. According to official Japanese statistics, during the initial eight years of Japanese direct investment in China (1979-1986), the cumulative surplus (\$25 million) of direct investment in such labor intensive industries as textiles, food, and construction constituted only 4.8 percent of the total direct investment in China for the same period, less than one-tenth of the direct investment (\$273 million) in such service industries as hotels. The investment structure obviously failed to keep up pace with China's social and economic development, and its needs at the time. And posed great contrast with Japan's investment structure in Taiwan where it started from direct investment in labor intensive industries of textiles and clothing. Although the cost of labor noticeably increased in Taiwan in subsequent years, Japan's direct investment in such industries still accounted for 24 percent of its total investment. The strategy not only created jobs and enhanced capital accumulation, but

also promoted Taiwan's industrialization and its economic take-off. The initial phase of Japan's investment in China, however, far lacked a similar function.

There were fatal weaknesses in Japan's "starting structure" for direct investment in China. First, it paid little attention to China's advantages of labor and other resources, resulting in the decline of mutual complement in bilateral economic cooperation. Second, it ignored the demand of China's modern manufacturing industries, leading to the dampening of China's confidence in the use of Japanese investment. Third, it ignored China's demand for new technologies and felt uneasy about the so-called "boomerang," resulting in declining responses on both sides. The starting period of Japan's investment in China, therefore, was marked by slow and difficult paces, bringing about various negative effects on the subsequent development to the extent such that the total cumulative surplus of Japan's investment in China had been a mere \$2.474 billion by the end of 1980s. The magnitude of its investment was not only far below that of Hong Kong for the same period, but even smaller than Malaysia (\$2.507 billion), which had moderate investment environment with an area less than one-fourth of Shandong Province of China. This fully proves that Japan is still in its primary stage of insufficient development in its investment in China.

2. Japan's direct investment in China has increased fast, but in an unbalanced manner. Furthermore, most of the investment has a low coefficient between input and output. Despite the fact that the investment helped China to raise some external funds, it did not produce high social and economic efficiency, with little effect on the enhancement of China's even development of modern industries. It is well known that because of the small base number of investment, any increase would appear to be particularly conspicuous. According to Japanese official statistics, during the 12 years from 1979 to 1990, the cumulative surplus of Japanese direct investment in China had an average annual increase of \$235 million, of which, the increase per year for the period of 1985-1990 reached 57.5 percent. This may be said to be super growth. Further, by the end of 1987, Japan had surpassed Taiwan (\$1.419 billion) in investment and became one of the major investors in Asia.

But Japanese direct investment in China has been developing unevenly, and its comprehensive economic impact has been not satisfactory. In terms of regions where the investment went, much was concentrated on the southeastern coastal areas and special economic zones in the initial phase of investment (72.3 percent of investment was in such regions until 1987). Little was invested in the north, especially in inland areas. In regard to the hierarchy of the investment, much went to small enterprises with little technology, ignoring high-tech, modern and large enterprises. In term of industrial structure, more investment was poured into nonproductive projects than manufacturing industries (until the end of 1988, only

17.1 percent of the investment had gone to manufacturing, and 82.9 percent to nonmanufacturing industries). There are more cases of low coefficients between input and output in terms of the impact of investment. The generally low coefficients stand out as the greatest problem in the investment, and poses as the key hindrance to substantial development in the investment for Japan. For instance, Jiangsu Tri-Beneficial Food Co. Ltd of Lian Yungang, a joint venture of China and Japan (Japanese share of 50 percent), has a capital of \$13 million and 311 employees. In 1986, its output value was merely \$4.89 million, which means that for every \$10,000 invested, the company turned out only \$3,800 worth of products. In contrast, the Japanese funded Unified Clothing Co. in Minxiong, Jiayi County of Taiwan turned out \$6.97 million worth of products for the same period of time, with only \$200,000 and 241 employees, which means that for every \$10,000 invested, the company had an annual output value of \$378,000. The coefficients between input and output for the two companies were way different. Although this does not represent the whole story, it is a manifestation of the general situation with Japanese "foreign-funded enterprises" in China.

3. Markets are mostly dependent on domestic sales, and the investment behavior is short-term oriented. Based on investigation, many Japanese "foreign-funded enterprises," (including some enterprises in the economic zones) are oriented toward domestic markets. The strategy includes assembling products with parts from Japan and selling them in the domestic markets in the name of "import substitution." Some enterprises may call themselves export-oriented, yet act at lower levels (e.g. export to Japan basic processed products of local specialties such as soybeans in the northeast, ginseng from Jilin and other Chinese medical herbs). These enterprises, therefore, are not only unable to access the international markets and balance their foreign currency, but also intrude and burden, to a varying degree, the domestic markets, which are still immature and lack competitiveness.

In contrast, Japanese investment in Hong Kong and Taiwan is mostly export-oriented, and investment behavior is long term in nature. It also plays a positive role for the expansion of the local markets and economic prosperity. For instance, Taiwan enterprises with direct investment from Japan usually have high rate of export and foreign currency earnings. Based on investigations by Taiwan government offices of 239 enterprises (mostly Japanese funded), the cumulative investment in these enterprises in 1986 was \$459 million. Their exports for the same period were worth \$2.4 billion, that is, for every \$10,000 Japanese investment, the annual income of foreign currency could reach more than \$500 million. The same applies to Japanese investment in Hong Kong. Even smaller Japanese funded manufacturing enterprises may have 50 percent of their products sold in foreign markets. These direct investments have a further common characteristic: a long-term investment orientation. Some investors have operated there for more than

40 years; they still continue to expand and plan on projects for new products. In comparison, it is obvious that such investment strategies may better serve the needs of China at the present stage.

### Joint Venture Bankruptcy Legislation Needed

93CE0456A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 3, 30 Mar 93 pp 15-18

[Article by Zhou Jianhong (0719 1696 4767): ""Legislation Concerning Sino-Foreign Joint Ventures and Investment-Related Laws and Regulations Needs Revision"]

[Text] On 1 July 1979, the second meeting of the Fifth NPC passed the first law on the introduction of foreign capital since founding of the new China, namely the "People's Republic of China Sino-Foreign Joint Ventures Law" (hereinafter abbreviated to the Joint Ventures Law). Using experiences gained in a decade of implementation of the Joint Ventures Law, on 4 April 1990, the Third Meeting of the Seventh NPC revised provisions pertaining to election of the chairman of the board, the duration of joint ventures, the conversion of joint venture assets to state-ownership, and takeovers. During the period of improving the economic environment and rectifying the economic order, and the publicizing of China's policy of opening to the outside world, the revised Joint Ventures Law played a positive role in bringing about a new upsurge in the importation of foreign capital. With the further intensification of the policy of reform and opening to the outside world, the importation of foreign capital entered a new stage throughout the country. To meet new needs in economic development, the 1990 Joint Ventures Law and companion legislation should be revised once again. Specifically, new provisions pertaining to the principals in the operation of joint ventures, and the form of organization of joint ventures that are in keeping with economic circumstances should be framed to promote the development of China's importation of foreign capital.

### 1. Widening of the Purview of the Principals in Joint Venture Legislation

The 1990 Joint Ventures Law provides that joint ventures are forms of economic organization in which foreign corporations, enterprises, and other economic organizations or individuals jointly invest, jointly operate, and jointly share profits and losses on the principle of equality and mutual benefit with Chinese corporations, enterprises, or other economic organizations within the territory of the PRC following Chinese government approval. On the basis of the aforestated provision, the foreign principal operating a Sino-foreign joint venture is a foreign corporation, enterprise, economic organization, or individual, meaning that both a juridical person and a natural person may become the foreign joint venturer in a Sino-foreign joint venture. The Chinese principal in the operation of a Sino-foreign

joint venture is a Chinese corporation, enterprise, or economic organization, meaning that a juridical person may become the Chinese joint venturer in a Sino-foreign joint venture. Provisions of the Joint Ventures Law's pertaining to the Chinese joint venturer excludes the possibility of a natural person being a Chinese joint venturer; thus, individual entrepreneurs in China today who have a certain amount of economic strength and scale of production cannot participate in joint ventures. This fundamental provision of the Joint Ventures Law is no longer consistent with requirements of China's steadily developing individual businesses. After a decade of development, the economic strength and production capacity of China's individually owned businesses has developed substantially. Incomplete statistics from the departments concerned show individual operators having assets of more than 1 million renminbi as numbering more than 5,000. Individual operators have become active participants in China's economic life. In addition to the tertiary interests, which have traditionally been associated with the daily life of the people, individual operators have begun to move into machinery manufacture, automated aquatic products breeding, real estate, and newly emerging high science and technology industries, which urgently need foreign capital and technology to increase their productivity and expand the scale of their production. Second, some local government organs in China (in Jiangsu and Guangdong, for example) permit individual operators to take part in Sino-foreign joint ventures following application and special approval. Lack of nationwide legislation for uniform regulation may lead to mix ups in law enforcement, and may produce a bad situation in which government actions lack a legal basis. In addition, it may reduce opportunities for the individually-owned economy to participate in international competition, thus impairing development of the individually-owned economy. Third, China already has legislative provisions that permit individual operators or natural persons to participate in foreign economic activity; therefore, widening of the purview of the Joint Ventures Law principles does not at all impair the overall coordination of foreign economic legislation. "People's Republic of China Technology Import Contract Control Regulations," which was promulgated in 1985, provides that technology importation applies to technology imported by a corporation, enterprise, group, or individual within the territory of the PRC through trade or through economic and technical cooperation from a corporation, enterprise, group, or individual outside the PRC. This regulation permits individuals to engage in the importation of technology from abroad and to take part in foreign economic activities.

To create a climate of equal competition for individual operators to promote the economic prosperity of China, I believe that the law should provide not only that juridical persons such as corporations and enterprises may be Chinese joint venturers operating Sino-foreign

joint enterprises, but should also permit individual operators or other natural persons to take part in Sino-foreign joint ventures.

## 2. Improvement of the Organizational Form of Joint Ventures

China's Joint Ventures Law provides that the organizational form of a joint venture is to be that of a limited liability corporation. So-called limited liability company means a company having a small number of shareholders that does not issue shares, and in which corporate liability is limited to the amount of investment of the shareholders. When China drew up the Joint Ventures Law in 1979, the limited liability company was selected as the legal form of enterprise for objective reasons. One was that when China promulgated the Joint Ventures Law, the country's policy of reform and opening to the outside world had not been in being for very long. Domestic concerns were not sufficiently acquainted with the customary methods of foreign corporate law. Adoption of a form of limited liability companies having a stable number of shareholders and in which the organizational structure is closely-knit was beneficial to cooperation between the Sino-foreign parties. A second reason was that China was exploring financial system reform. At that time, share certificates and debentures were not recognized in law. Even if joint ventures had been permitted to use some other form of organization, there was no companion legislation. However, with continuation of the policy of reform and opening to the outside world, the limitations of a solitary form of joint venture organization became apparent. First is the limitation on channels for raising capital of limited liability companies. Limited liability companies employ investment by all shareholders as the main source of corporate funds; they may not issue shares to raise capital. Consequently, once a joint venture has been founded, if it becomes necessary to expand reproduction, the only way to do it is borrow money. However, the amount of money that a joint venture can borrow is limited. "State Administration for Industry and Commerce Interim Regulations on Sino-Foreign Joint Venture Registered Capital and the Ratio of Total Investment," which was promulgated in 1985, require that the amount of money that a joint venture may borrow from a bank or other institution depends on the amount of its registered capital. If it wants to increase total investment to \$7 million, since the ratio between registered capital and borrowed capital that the regulations set for an enterprise having a registered capital of \$3 million is 1 to 1, the enterprise may borrow a maximum of only \$3 million. It has no way to raise the remaining \$1 million needed to make \$7 million. Thus the enterprise's normal expansion of reproduction is impaired. Second, in actual practice, joint ventures have issued stock shares to raise money, thereby violating the limitations of the limited liability company form of organization. The founding and perfection of China's debenture and stock markets have opened new avenues for joint ventures to raise capital. An example is joint ventures including the

Shenzhen Yingda Group Corporation, the Hong Kong Dahuan Bicycle Corporation, and the American Schwinn Bicycle Corporation marketing shares on the Shenzhen Stock Exchange. Another example is the Vacuum Electron marketing on the Shanghai Stock Exchange of shares issued by the Sino-foreign joint venture Shanghai Vacuum Electron Device Corporation. If enterprises use the limited liability company form of organization provided for in Article 4 of the current Joint Ventures Law as the basis for issuing shares, this is bound to occasion consequences for foreign investors in the form of having no law to rely on or having a law but being unable to rely on it. Therefore, whether analyzed in terms of theory or practice, an expansion of the Sino-foreign joint venture form of organization has become a necessity for actual development.

Expansion of the Sino-foreign joint venture form of organization may be done on the basis of existing legal provisions regarding limited liability corporations to increase the joint-stock limited liability corporation form of organization. A joint-stock limited liability corporation is made up of a fixed number of shareholders; it can issue stock; and the shareholders have limited liability to the corporation. Legislation has begun to take shape in China for joint-stock limited liability corporations. "Views on Joint-Stock Limited Liability Corporations," which is in the nature of a standard law, has been promulgated to guide the establishment of joint-stock limited liability corporations. Joint-stock limited liability corporations may rapidly raise money needed for production through the issuance of shares. This provides extremely great possibilities for the expansion of reproduction. If the Joint Ventures Law were to provide additionally for joint-stock limited liability corporations, this would surely help widen the scale of production of joint ventures, and increase production capacity.

### 3. Improvement of the Joint Venture Bankruptcy and Liquidation System

Bankruptcy and liquidation of joint ventures has to do with the disposal of joint venture's remaining assets as well as protection of the rights of creditors. It is a necessary procedure for bringing joint enterprises to a satisfactory conclusion. The 1979 and the post-revision 1990 joint venture laws contain no concrete provisions for bankruptcy and liquidation. The "Detailed Regulations for Implementation of the Sino-Foreign Joint Venture Law" (hereinafter termed the "Implementation Regulations"), which were promulgated in 1983, remedied this situation. Since the "Implementation Regulations" were promulgated only five years after joint ventures were allowed to operate in China, no actual cases of joint venture bankruptcy and liquidation have occurred so far. Therefore, the "Implementation Regulations" provisions regarding liquidation and bankruptcy are too much in the nature of principles, and some clauses are even mutually contradictory. The main problems with the "Implementation Regulations" bankruptcy and liquidation provisions are as follows: First, there is no provision regarding the circumstances in

which principals may propose bankruptcy. The "Implementation Regulations" provide for joint venture liquidation under two circumstances. One is liquidation when, in accordance with the terms of a contract, the period of the joint venture is at an end, and the parties to the joint venture have not agreed to an extension of the period of the joint venture. Since such a liquidation is a legal procedure that a joint enterprise must go through before termination, it is termed normal liquidation. The second circumstance is covered by provisions 2 through 6 of Article 102 of the "Implementation Regulations," which provide for liquidation if a joint venture is unable to continue operation, or if a joint venture has not met its operating goals and has no prospect of doing so. Since such a liquidation is conducted before the period of the joint venture is complete, it is termed an abnormal liquidation. Whether a normal liquidation or an abnormal liquidation, according to the provisions of Article 103 of the "Implementation Regulations," when a joint venture announces dissolution, the board of directors is to set forth the procedures and principles for liquidation, and appoint a liquidation committee. This article provides that the board of directors is the sole entity that can propose liquidation. This provision precludes a creditor from applying to a court for a limited liability Sino-foreign joint venture to have the right to declare bankruptcy when that venture is unable to pay its liabilities on time. The second problem with the "Implementation Regulations" is that they set no time for setting forth liquidation procedures. The present law variously specifies the time when liquidation procedures may be set forth as follows: (1) Article 14 of the "Implementation Regulations" provides that joint venture contracts should include not only 13 items including the names of both parties to the joint venture, the total amount of investment, and the makeup of the board of directors, but should also include the duration of the joint venture, and procedures for its dissolution and liquidation. According to this provision, liquidation procedures are set forth in the process of negotiating the joint venture contract. The provisions are in the joint venture contract articles.

(2) Article 103 of the "Implementation Regulations" provides that at the time a joint venture announces dissolution, the board of directors is to set forth liquidation procedures and principles, select a liquidation committee, file a report with the authorities in charge of the enterprise for examination and approval, and to supervise the liquidation. According to this provision, liquidation procedures are to be set forth and decided by the board of directors at the time the dissolution is announced.

(3) Article 47 of "Civil Law Regulations" provides that "when an enterprise juridical person dissolves, a liquidation organization is to be set up and liquidation performed." In accordance with this provision, an enterprise juridical person, which includes a Sino-foreign joint venture established within the territory of China, is to establish a liquidation organization and decide liquidation procedures following dissolution.



The foregoing different provisions of the law, as well as different interpretations of the law, create extreme difficulties in practice in the handling of liquidation problems. At the same time, they generate negative factors in the correct and reasonable division of the economic rights and interests of the parties to a Sino-foreign joint venture. Today, when the policy of reform and opening to the outside world has been in effect for nearly 15 years, many joint ventures set up at the end of the 1970s and during the early 1980s, and that are to run for 10 or 15 years, either have reached, or soon will reach, the time of liquidation. How to formulate genuinely workable legal provisions for these enterprises to dispose of their assets properly has become a legislative problem requiring urgent solution. In this regard, we should propose the following legislative measures: 1. Establishment of a joint venture bankruptcy law system. China's present joint venture law and the "Implementation Regulations" provide liquidation procedures only in principle. There are no real legal provisions for joint enterprise bankruptcy. In this connection, two different legislative methods may be selected as follows: (1) addition to the "Implementation Regulations" of applicable enterprise bankruptcy limits, conditions whereby creditors may propose application for bankruptcy, the makeup of creditors' meetings, the order in which creditors are to receive compensation, and such substantive legal provisions that provide a legal basis for joint venture bankruptcy; (2) formulation of a separate bankruptcy law. China already has a bankruptcy law, but it applies only to enterprises under ownership of the whole people. In an economy in which diverse economic components exist at the same time, situations may arise in which individually owned enterprises, collective enterprises, and Sino-foreign joint ventures, as well as Sino-foreign contractual joint ventures, and wholly foreign-owned enterprise may incur debts that are greater than their assets, the enterprises going bankrupt. A bankruptcy law that applies only to enterprises under ownership of the whole people hardly meets the needs of economic development. The formulation of substantive law applicable to enterprises under all forms of ownership holds greater practical significance. It can both avoid repetitious legislative work, and can deal equitably with enterprise bankruptcies. 2. A second proposed measure is revision of articles of the law pertaining to liquidation matters to make them more practical. The principles for liquidation following revision should provide as follows: (1) the board of directors to make a request for liquidation. The Joint Ventures Law and its companion "Implementation Regulations" provide that the board of directors is the supreme authority in joint ventures in deciding important joint venture matters. In addition, the board of directors is made up of representatives of all parties to the joint venture, and is thus able to express the rights and interests of all parties. Therefore, a request from the board of directors for liquidation is consistent with the spirit of the law, and is readily acceptable to all parties to the joint venture; (2) liquidation procedures to be set forth in the joint venture contract. An overwhelming majority of liquidations

among joint venture enterprises are abnormal liquidations resulting from the joint enterprise's inability to attain anticipated economic goals, or inability to continue operations because one party fails to discharge its obligations. In an abnormal liquidation, the atmosphere of cooperation between both parties has been ruptured, making dispassionate discussion of liquidation procedures difficult. Therefore, specific provisions about this matter should be arrived at when the joint venture contract is being discussed. It should be one of the articles in the contract that helps facilitate liquidation. (3) Setting of liquidation principle, since liquidation procedures are to be set forth in the joint venture contract, and liquidation is to be under auspices of the board of directors, there is no neutral third party involved. Therefore, to ensure that liquidation is conducted fairly, the law should specify the basic principles for liquidation. The actual methods used at the present time for handling the assets of a liquidated enterprise include open auction and reappraisal, the assets being sold at either the market price or at book value. The law can specifically define in legal articles a workable method to be used in practice. The law may deem invalid liquidation actions that damage one party to the joint venture as a result of failure to observe the liquidation principles that the law specifies. (4) Provisions for the handling of controversies that arise in liquidation. The existing legislative principle in China is that liquidation is to be completed solely by the board of directors, neither the courts nor any other government agency participating in liquidation. In the actual liquidation process, however, should one party resort to trickery or transfer assets, this is bound to hurt the interests of the other party and lead to controversy over the liquidation. Unless some agency is designated to handle such controversies, the liquidation will be adversely affected. In the earlier discussion, I proposed that the liquidation process be stipulated in the joint venture contract. This was done with the thought in mind that if the liquidation procedure is a clause in the joint venture contract, should a controversy arise over contract provisions, the court having jurisdiction and a mediation agency agreed to by both parties can handle it. If liquidation procedures are set following the dissolution of a joint venture, it will be difficult to provide legal data for the intervention of the court or the mediating agency.

#### 4. Timely Revision of the Joint Ventures Law

The law has a certain stability. Unpredictable changes lead to the law lacking authoritativeness. In addition, the law must meet the needs of economic development; otherwise the law will become an obstacle to economic development. This point is particularly reflected in legislation that changes economic development. As an important law whereby the state attracts foreign capital, the joint venture law is a keystone for legislation to attract foreign capital. It must reflect the needs of economic development. Legislation to attract foreign capital of all nations and territories universally reflects this trait. As an example the "Korea Law To Attract

Foreign Capital" that South Korea promulgated in 1966 was twice revised, once in December 1973 and once in 1983. The "Implementation Regulations for the Korea Law To Attract Foreign Capital," which are a companion to the "Korea Law To Attract Foreign Capital" underwent 21 revisions between its promulgation in September 1966 and its final revision in 1990. Between 1969 and 1978, the implementation regulations were revised twice a year. Another example is the "Award Investment Regulations," the "Foreigner Investment Regulations," and the "Investment Regulations for Overseas Chinese Returning to China" that the Taiwan authorities promulgated to attract foreign capital. In the course of their enforcement, the Taiwan authorities made numerous revisions to the foregoing laws. For example, between the time of their promulgation in 1955 and 1987, the "Foreigner Investment Regulations" underwent nine revisions. From the time of their promulgation in 1956 and 1987, the "Investment Regulations for Overseas Chinese Returning to China" were revised seven times. Both South Korea and Taiwan are correctly applying foreign capital attraction and associated legislation for speedy development of their economies. Therefore, timely revisions of the law as economic development requires does not impair the stability of the law. Instead, it is something new in the protection of economic life in a greater context.

China's joint venture law has been in effect for more than two years since the promulgation of its revision in 1990. The "Implementation Regulations" based on the provisions of the old law of 1979 have not been revised since their promulgation in 1983. In the course of their application, a conflict occurred between the 1990 Joint Ventures Law and the companion "Implementation Regulations" of 1982. Very great changes have taken place in China's economic situation since the beginning of 1992, new situations occurring endlessly in economic life. Revision of the Joint Ventures Law and its companion "Implementation Regulations" is necessary for economic development. A Joint Ventures Law and its companion legislation that are consistent with the new circumstances will promote China's policy of reform and opening to the outside world, and further attract foreign capital.

#### **Trade Agreement Between Hong Kong, Yili, Kazakhstan**

93CE0418B Beijing ZHONGGUO QINGNIAN BAO  
in Chinese 27 Mar 93 p 7

[Article: "Brief Introduction to the International Trade City Project on the Sino-Kazakh Border"]

[Text] Between September 1992 and January 1993, the Yizhou Group Company Limited of Hong Kong, the People's Government of Yili Kazakh Autonomous Prefecture, Xinjiang, and the Panfilov Regional Government of the Republic of Kazakhstan signed agreements on lease of the land-use right for building an international trade city. The agreements cover the lease of 1.3

million square meters of land on each side of the Sino-Kazakh border at the frontier checkpoint of Korgas for a period of 50 years. An solely overseas-funded enterprise under the name of "Xinjiang Jiazhou Border Trade City Company Limited" will be established and registered with Yili Kazakh Autonomous Region, Xinjiang, China. The company will have a registered capital of 60 million yuan and a total investment of 400 million yuan. Another company, "Kazakhstan-China International Free Trade Zone Company Limited," will be formed and registered with the Republic of Kazakhstan. The planned border trade city, and also a free economic and trade zone, in Korgas will aim mainly at providing venues and offering supporting services for business people from various countries to conduct economic and trade activities. The Xinjiang Jiazhou Border Trade City Company Limited will do business in the free economic and trade zone in the fields of real estate, chemicals, leather, electronics, medical and health-care supplies, light industrial products, farm and sideline products, building materials, fixtures, and metals. It will also undertake such projects as the three types of foreign-funded enterprises [Sino-foreign joint ventures, Sino-foreign cooperative enterprises, and wholly foreign-owned enterprises], the three forms of import processing [processing and assembly industries with raw materials, components, and patterns supplied from abroad], and compensatory trade.

#### **Expert Opinions on Korgas as Special Trade City**

93CE0418C Beijing ZHONGGUO QINGNIAN BAO  
in Chinese 27 Mar 93 p 7

[Article: "Opinions of Expert Feasibility Study Committee on Research Report on Construction of International Trade City in Korgas on Sino-Kazakh Border"]

[Text] The Yizhou Group Company Limited of Hong Kong has reached agreement with the Yili Kazakh Autonomous Prefecture of Xinjiang, China, and the Panfilov Regional Government of the Republic of Kazakhstan to obtain the land-use right for 1.3 million square meters of land on each side of the Sino-Kazakh border at the Korgas checkpoint for building an international trade city. The purpose of this project is make use of Xinjiang's geographic advantages in opening to the west and as a hub on the Eurasian passageway, the emerging trend of great economic development, and the opportunity that a big Central Asian market is taking shape and a new economic zone is coming into being in Central and West Asia after the collapse of the Soviet Union. It is intended that the construction of this international trade city will motivate the development of Xinjiang and the great northwest, accelerate the pace of opening China to the west, and promote economic exchange and cooperation between Xinjiang and even all of the northwest region on the one hand and Central and West Asia on the other and between the two continents of Europe and Asia. This is a courageous and insightful project displaying a pioneering spirit. It has excellent prospects and is drawing wide attention. Successful implementation of



this project will set a new example for other Chinese border areas to follow in opening to the outside world.

With a broad vision, the "research report" on this project contains a fairly detailed and sufficient feasibility study of the construction of the Sino-Kazakh international trade city from the viewpoints of its macro-background, long-term significance, overall plan, model selection, and management system. The "research report," with rich information and objective analyses, seeks truth from facts and is very convincing. Our study of the report shows that the plan for building the Sino-Kazakh international trade city is feasible, has a legal basis, and will yield enormous economic and social benefits.

The "research report" points out the difficulties that may arise and problems that must be resolved in building the Sino-Kazakh international trade city. Among these, an exceptionally striking problem is the very inadequate infrastructure, especially backwardness in transportation. To build this international trade city and give full play to its role, it is imperative to beef up infrastructure construction, transportation construction in particular. The government of Xinjiang Autonomous Region should devote its efforts to building transportation facilities linking Korgas and other places. In addition, as the Sino-Kazakh international trade city is located on the border and spans the two countries, it is imperative to properly deal with and harmonize the interests and related policies of the two sides as well as the relationships of administration, development, operations, and management between the Chinese and Kazakh parts of the city, including the division of authority, under the premise of safeguarding the state sovereignty of both countries. To facilitate the construction of the Sino-Kazakh international trade city and to ensure smooth progress of all undertakings after the completion of this project, it is also necessary to solve various legal issues that may arise. For this purpose, more attention should be paid to studying and complying with the laws and regulations of China, Kazakhstan, and other related countries in Central and West Asia. On the Chinese side, we have to further modify our related laws and regulations to make them suitable. The suggestions on the principles in this regard contained in the "research report" are appropriate. All these problems should be resolved step by step in the future in the course of building and operating the Sino-Kazakh international trade city. The "research report" makes no mention of the scale of investment in building the city and the rate of the investment return. Nor does it contain any suggestion on financial arrangements for this project. All these have to be carefully studied by the Yizhou Group Company when formulating its concrete investment and construction plans. The "research report" suggests, however, that the Sino-Kazakh international trade city be built and developed by stages. The suggestion, though somewhat sketchy, is very enlightening. While building and developing the international trade city by stages, we may follow the principle that the construction process

should be in line with progress in improving and developing the city's external transportation facilities. During the initial construction period, in addition to building the necessary infrastructure structure, departments concerned should take measures to use more fully and develop further the processing industry already existing in the Yining area as a way to facilitate the construction of the Sino-Kazakh international trade city and strengthen its economic ties with our inland areas. To bring into full play the role of this international trade city, it is necessary to make more efforts in the future to study the trade structures of Xinjiang, the Republic of Kazakhstan, and other countries in Central and West Asia so as to have them complement and promote each other.

On the whole, this is a high-standard research report, which can be used as a reference by the Yizhou Group Company and the pertinent government departments in formulating detailed construction and development plans for the Sino-Kazakh international trade city. However, the "research report" requires some amendments and supplements based on the opinions expressed by experts engaged in the feasibility study.

It is suggested that the government of Xinjiang Autonomous Region submit the plan for the Sino-Kazakh international trade city to the State Council for examination and approval.

The Feasibility Study Committee has unanimously approved the "research report."

8 March 1993

**Members of the Feasibility Study Committee for the Research Report on the Sino-Kazakh International Trade City**

Dong Fureng: chairman of the Feasibility Study Committee, member of the Standing Committee of the National People's Congress, honorary director of the Institute of Sociology under the Chinese Academy of Social Sciences, and celebrated economist.

(The following are listed in the order of the number of strokes in their surnames.)

Ding Guangyuan: member of the Feasibility Study Committee, former vice president of the Chinese Academy of Social Sciences, former member of the Central Advisory Commission, and celebrated economist.

Ma Hong: member of the Feasibility Study Committee, director of the Development Research Center of the State Council, and celebrated economist.

Wang Mengkui: member of the Feasibility Study Committee, deputy director the Research Office of the State Council, and celebrated economist.

Wang Runsheng: member of the Feasibility Study Committee, member of the Standing Committee of the National People's Congress, former vice minister of

foreign economic relations and trade and concurrently director of the General Administration of Customs.

Sun Shangqing: member of the Feasibility Study Committee, deputy director of the Development Research Center of the State Council, and celebrated economist.

Li Chang: member of the Feasibility Study Committee, former secretary of the leading party group and vice president of the Chinese Academy of Sciences, and former member of the Central Advisory Commission.

Jiang Ping: member of the Feasibility Study Committee, member of the Standing Committee of the National People's Congress, former president of China Politics and Law Institute, celebrated law expert.

Chen Xian: member of the Feasibility Study Committee, member of the Standing Committee of the National People's Congress, and former permanent vice minister of the State Planning Commission.

Ji Chongwei: member of the Feasibility Study Committee, senior researcher of the Development Research Center of the State Council, and celebrated economist.

Chen Dongsheng: member of the Feasibility Study Committee, researcher of the Institute of Industrial Economics under the Chinese Academy of Social Sciences, and celebrated economist.

Meng Xiangang: member of the Feasibility Study Committee and chief and associate researcher of the Trade Administration Department of the Economic and Trade Office under the State Council.

Liu Xiaohua: member of the Feasibility Study Committee and deputy chief of the General Department of the Special Zone Office under the State Council.

Gao Shangquan: member of the Feasibility Study Committee, vice minister of the State Commission for Restructuring the Economic System, and celebrated economist.

### Potential Border Trade in Korgas

93CE0418A Beijing ZHONGGUO QINGNIAN BAO  
in Chinese 27 Mar 93 p 7

[Article by Zhuang Yongjing (8369 3057 4552), member of the National Committee of the Chinese People's Political Consultative Conference, board chairman of the Yizhou (0001 3166) Group Company Limited, Hong Kong: "Korgas—a Paradise for Adventurers"]

[Text] At the age of 43, I had the honor to attend the First Session of the Eighth National Committee of the Chinese People's Political Consultative Conference [CPPCC] as a committee member. I deem this as the country's recognition of my years of patriotic deeds as well as contributions to national prosperity and to the cause of public welfare. To me, this year is not only a year when I assumed a title in the CPPCC National

Committee, but also a year marking another major takeoff in my career. My heart turned toward the great northwest long ago. I want to detonate an economic boom in the great northwest and make it a new Chinese economic growth center not to be ignored in the 1990s.

### Developing the Great Northwest Is a Consensus of the Chinese Nation

Since the beginning of the reform and opening up drive, China's economic development has been crowned with great achievements as noted by everyone. Yet we cannot ignore this fact: An obvious gap in economic development not only exists between eastern and western China but has continued to widen in recent years. With respect to the second-step goal to be achieved in the year 2000, namely, enabling the people to lead a rather comfortable life, we can say for sure that the goal will be fulfilled in the eastern and central regions. What is causing us concern is only the western region. If the northwest remains in a closed-up and backward state throughout the 1990s, it will inevitably affect the overall development of China's economy. How to extricate the western region from the closed-up and poverty-stricken state, link its economy with that of the east, and orchestrate their development is a question concerning the growth of the Chinese economy as a whole.

Exploration, opening up, and developing the west requires a large amount of capital input. Because of our limited financial capacity, it is imperative to solicit investment from overseas. At present, however, neither the investment environment nor the economic level in the western region is a conspicuously favorable factor to attract overseas investments. Now, overseas investments are mostly concentrated in China's big cities located in the coastal area with a sound basis for development. Very few investors have set foot on the soil of the great northwest China. Because of this, the economy of the northwestern region has fallen into a vicious cycle: poor investment environment—scanty overseas investment—insufficient capital input—poor investment environment. If this state of affairs continues and the cycle goes on, the great northwest China will never catch up with the rapid economic development of the eastern region and will in no way get out of the predicament.

To break with the closed-up and backward state of the western region and narrow the gap between the east and west, two things must be done: One is to open the region in all domains and transform its closed-type economy into an externally oriented economy. The other is to step up improvement of the investment environment and use more preferential and special policies to encourage and draw large numbers of investors to invest in the northwest. Obviously, these two things are of utmost importance to the economic development of the western region.

A patriotic investor should adapt his investment to the need of China's overall economic development and take into consideration the social benefits derived from the

investment. To change the current situation with respect to China's eastern versus western region, last September I made up my mind to invest in building a modern international trade city on the border between China and Kazakhstan (Republic of Kazkhstan).

### **The Great Northwest—Korgas Has a Great Potential**

In making any investment, an investor must give consideration to the investment environment and the rate of investment return.

Feasibility studies by experts reveal that a huge potential exists in the great northwest. On 8 March some 50 noted Chinese economists and leaders from the departments concerned gathered at Diaoyutai to discuss and study the feasibility and significance of building an international trade city in Korgas and developing the great northwest. The opinion of experts is that the proposed international trade city will become a bridgehead in the construction of a Eurasian continental bridge and will be of special importance to the development of the great northwest. In the first place, the great northwest is a key development area in China for this and the next century. The continued, in-depth development of China's reform and opening up cause is bound to rely on the support and backing of the great northwest. Second, the great northwest will be a key source of productive forces in China during this and the next century. It will also be a major industrial area in China during the coming development period after the adjustment of the country's industrial orientation. Third, the great northwest is a key development area in China's "four along" strategy [strategy of developing areas along the coast, border, rivers, and roads]. It is located on the border and by the road—the roadway of the new Eurasian continental bridge. Now, over 60 countries and regions have begun economic and trade exchanges with "roads" as exchange centers. From a strategic viewpoint, Xinjiang, close to the great Central and West Asian markets and being a hub on the Eurasian traffic route, is an indispensable place in the east-west exchange. It will probably become an intermediate land and air station for regional cooperation and exchange between Europe and the Pacific rim areas and between Central Asia and the Asia-Pacific region. Once this trade center is established in the Central Asian hinterland, there will be broad prospects for developing a Eurasian inland market oriented mainly toward the Commonwealth of Independent States [CIS] and Eastern Europe. Fourth, the great northwest is a "big warehouse" for China's economic development. It is a big resource warehouse and has a great market potential. Fifth, the northwest, lagging behind other areas for a long time, has much room for improvement. There are exceptional conditions that warrant the development of the region and make it possible to "get great results with little effort."

Plus, we will be benefited by the preferential policies of both the Chinese and Kazakh governments. We can buy

low-price land at a good location. When making company registrations, we can get preferential treatment with regard to the scope of business, power of soliciting investment, and so forth.

As shown by an analysis made by Ji Chongwei, senior researcher of the State Council's Development Research Center, subjective and objective conditions, including timeliness, geographical advantages, and human factors, exist for building an international trade city in Korgas. This is based on scientific feasibility studies. My proposal is realistic and practical.

### **A Risky Undertaking—But a Greater Return**

Now, if someone asks me how much return is expected from this investment and whether the money put into the project will be lost, I can only say I will do my best. With a patriotic heart and my investment strategy and experience and through our pioneering work and sincere cooperation with the local governments at all levels, I believe that it is possible to blaze a new trail for developing the economy of China's great northwest. To do as much as I can for the motherland's economic development is a new target of my investment in China for the 1990s. In my opinion, if you invest in an inland enterprise, you can only turn out one category of products; if you invest in a single project, you can only build that project. By investing in the establishment of a major trade city in the still-undeveloped and unfledged frontier, it is probable not only to find a breakthrough point for China to open itself to the west but also to improve the local investment environment, thus attracting and motivating more entrepreneurs to go there to make investment. I am sure that this is an investment project beneficial to the country and the people alike. It will have a very positive effect on realizing the strategy of "opening to the west, advancing to Central Asia, giving priority to border trade, and coordinating industrial development." Over the past six months, this project has won high praise from both the Chinese and Kazakh governments at all levels and received their support and assistance in one way or another. Recently, a feasibility study meeting on this investment project was held in Beijing and attended by noted Chinese economic scholars. Now, we have signed agreements for leasing 1.3 million square meters of land on each side of the Sino-Kazakh border and are prepared to implement the various investment plans under this project.

Building an "international trade city" on the Sino-Kazakh border spanning the two countries is an investment project for the comprehensive development of the area. The main purpose is to open an avenue for Xinjiang and other parts of the great northwest to open themselves to the outside world with the development of border trade as a priority. It is aimed at providing a relatively sufficient and modern infrastructure for opening northwest China to the west.

My basic idea is to acquire 1.3 million square meters of land on each side of the Sino-Kazakh border to build an

international free-trade city spanning the two countries and capable of providing multifunctional services. The international trade city will use the investment climate, development trends, and preferential policies of both sides as well as its own modern trade service facilities to attract investors from various countries. If someone asks me to give a rough outline of this international trade city, I would say that the international trade city I am planning to build will be a little larger than China's Macao, and that it will be a border trade center integrating banking, warehousing, transportation, export processing, hotels, as well as imports and exports in various fields.

Obviously, this is a long-term project requiring a huge amount of investment. It is a rather difficult and risky investment project, but also an investment project that can produce considerable social benefits. No matter what difficulty I will encounter at present or in the days to come, I have confidence in this investment project because it is a pioneering and exploratory undertaking. However, it is very hard for me to imagine that this investment project will create miracles and produce the expected results in a short period without the support and assistance rendered by the state and the coordinated measures taken under the overall national development program. What I can affirm is that the implementation of my investment project will promote and motivate the economic development of the western region. But I cannot say for sure that a single international trade city will, in a short time, improve the investment environment and speed up the development and opening-up of the entire western region.

Noted economist Yu Guangyuan says that the establishment of this international trade city in a border area in the continental hinterland is a new undertaking in China, which has been proved to be feasible as stated in a research report. Gao Shangquan, vice minister of the State Commission for Restructuring the Economic System, is of the opinion that Xinjiang is located at the hub of the east-west passageway adjacent to the great Central Asian market of the CIS and serves as a link between Europe and Asia. Investment in building an international trade city there, he believes, will no doubt trigger an economic takeoff in the great northwest, promote China's economic cooperation with Central and West Asia, and further the implementation of China's strategy of opening on all sides.

Korgas in the great northwest is a paradise for the insightful and adventurous. We sincerely hope that the elite of all communities at home and abroad will come here to cooperate in developing Korgas—and the great northwest. This is a common cause of the Chinese nation. Make one part of investment and you will get 100 parts in return!

I suggest:

1. That construction of the international trade city and supporting facilities outside the city be included in the

country's help-the-poor plan and the local government's development program. With regard to supporting facilities outside the city, especially communications and transportation, the state should get involved and help investors to make investment so as to meet the needs of the international trade city.

2. That the government actively assist in those long-term investments that can give greater social benefits. It should provide investors with financing channels and facilities and formulate more practical and preferential policies for their investment.

3. That Chinese companies and overseas business firms be encouraged to invest in the western region. The principle that "whoever invests gets the returns" should be established. Special policies with more preferential terms than bonded areas should be formulated to draw investors, both domestic and overseas, to invest in developing large tracts of land so as to achieve enormous results. For instance, we can adopt measures similar to those used by the Americans in their westward movement. We should take bold steps to draw investors to the west to join the western expeditionary force.

4. That the country pursue a policy in favor of developing the west. It should formulate special supporting policies to expedite the development and opening of the western region. The policies should be more liberal and preferential. In addition, the country should concentrate its efforts on infrastructure construction so as to create favorable external conditions and climate for large-scale investment by overseas business people.

## AGRICULTURE

### Decontrol of Cotton Marketing, Futures Trading Urged

93CE0447A Beijing *CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS]* in Chinese  
No 3, 11 Mar 93 pp 39-43, 52

[Article by Feng Lei (7458 7191), Task Force on "Market Fluctuations and the Development of Economic Stability," Finance and Trade Institute, Chinese Academy of Social Sciences: "Study on Decontrol of the Cotton Market"]

[Text] Cotton, grain, and edible oil are important farm products having a bearing on the national economy and the people's livelihood that have long been controlled by state plan. Since the advent of reform and opening to the outside world, the grain market and the edible oil market have been decontrolled to a certain extent, particularly during the acceleration of the opening to the outside world of recent years. Decontrol of the cotton market has been relatively slow in coming, however, no action having been taken until the last half of 1992. With the development of China's socialist market economy system, decontrol of the cotton market has become an inevitable trend. The emphasis of current research is on

how to decontrol the cotton market in a way that will both help cotton production, and the normal development of business concerns and the textile industries that use cotton as their primary raw material, and that will also reduce to the maximum extent possible the adverse effects on the economy of fluctuations in the wake of cotton market decontrol, particularly bad effects on cotton-associated industries.

### **I. Special Nature of Cotton as a Commodity; the Procurement and Marketing System and Problems With Them**

1. The special nature of cotton as a commodity. Cotton is a fairly special commodity whose nature, production and marketing differ in some respects from other farm products. First of all, cotton is a farm product that has just one use. Mostly, it is used as a raw material of the textile industry; the amount that the public consumes for wadded garments is very small. Second, cotton has a long production cycle. Preparations for production have to be carried over from one year into another. Readyng the land, for example, must begin in the previous year during which time the land cannot be used to grow other crops. This characteristic frequently affects growers' decisions as to whether to grow cotton. Third, cotton growing depends to a very large extent on natural conditions. It is fairly prone to the effects of waterlogging, insect infestation, and diseases. This produces a certain amount of risk in the growing of cotton, in the stability of the cotton business, and in the source of supply for textile mills. Fourth, cotton is grown in certain parts of the country but is consumed throughout the country. The main production areas are Shandong, Henan, Jiangsu, and Xinjiang. The other provinces and autonomous regions are mostly destinations for cotton shipments. This poses a nationwide problem and a need to allocate cotton resources scientifically and equitably. Fifth, cotton is a commodity that is produced seasonally and consumed all year round. This characteristic poses the problems of finding the money, paying the interest, and arranging warehouses to store cotton. Sixth, grading of cotton quality is strict. Seven different grades and one substandard grade are used in procurement, and each grade is finely subdivided, bringing the total number of grades to between 25 and 30. Controlling cotton quality grades has a very great impact on the quality of products down the line. At the same time, it is also of crucial importance to the rational use of cotton resources per se. These characteristics have a far-reaching effect on how the entire cotton production and circulation system is set up and on how to decontrol the cotton market.

2. The commodity cotton procurement and marketing system. The traditional cotton procurement and marketing system may be summarized as one of "four uniforms," namely uniform plans, uniform prices, uniform management, and uniform allocation and transfer. Cotton growing in China is mostly done by single families or households. The scale of production is small, and producing units are scattered over a wide area. Nevertheless, the product is covered by a uniform national

cotton procurement policy, which provides that except for a portion that the growers are permitted to retain for their own use, all cotton must be sold to the state. The state mandates the supply and marketing cooperative cotton and hemp corporation system to purchase it. In 1985, the state abolished centralized cotton procurement, changing to fixed contract procurement. Nevertheless, supply and marketing cooperative cotton and hemp companies still have a very strong monopoly position in the procurement of cotton. For example, 898,435 tons of cotton was purchased in Shandong Province in 1990, 882,748 tons, or 98 percent, of it by supply and marketing cooperative cotton and hemp companies. The remainder was purchased by the industrial sector or sold to nonagricultural residents by the peasants directly. In 1991, 1,359,287 tons were procured, supply and marketing cooperatives taking 1,356,310 tons, or 99.8 percent, of it. The state sets the cotton procurement price, using third grade 27 mm long cotton as the standard, and paying a standard price against this norm, the price varying with grade. Cotton allocation and transfer is based on state allocation and transfer plans, cotton buying and selling units at all levels presenting allocation, transfer, and supply plans. After the nationwide allocation is arrived at, once again, uniformity occurs, the cotton and hemp companies directly transferring the cotton to cotton yarn mills. A regional differential price applies to allocations among different regions.

3. Problems in cotton flow. Cotton production and consumption has been gradually decontrolled and invigorated in the process of economic system reform, but the cotton procurement and marketing system remains very stagnant, few changes having been made. Various institutional frictions in the overall cotton production, circulation, and consumption process have given rise to a series of problems that interfere with the fine operation of the entire process. First the supply of cotton is inconsistent. For the past decade or more, the production, procurement, and marketing system for many farm products has been gradually decontrolled, bringing very great changes in economic returns. As a result, the price ratio between grain and cotton has long been lower than the 1:8 needed to reflect the correlation between inputs into production and returns obtained. In general, farming of one mu of grain yields a 70 to 80 yuan return, but farming one mu of cotton brings about 300 yuan, an amount less than the required 1:8 ratio. This makes it difficult to make up the costs in growing cotton (including a normal return) to maintain the simple reproduction process. By comparison with the growing of other cash crops, the difference in earnings from cotton is very great. It is possible to earn several thousand yuan from one mu of vegetables. Such a comparison of relative returns, which discourages the growing of cotton, ensures a cotton shortage. Second, cotton procurement is inconsistent and places a heavy burden on the state. Guidance plans are used in cotton production, and guidance plans are used for cotton procurement, allocation, and transfer. Since the comparative return from growing

cotton is low, peasants are unwilling to grow cotton, so procurement plans cannot be easily fulfilled. Trying to match production to procurement produces frictions. Actually this is a conflict between two different systems. To overcome procurement difficulties and ensure state plan fulfillment, the state has no choice but to use various means to raise the procurement price, and it employs award sales. This results in a heavy burden on the treasury. A subsidy of 30.62 yuan is paid for each dan of cotton, and the difference between the parity price at which award sales of chemical fertilizer and diesel fuel are made, and the negotiated price that the state would otherwise obtain runs between 400 and 700 yuan. Third, changes in the procurement and marketing system have given rise to ups and down in both production and procurement. Since the beginning of reform and opening to the outside world, the state has taken a series of actions to increase cotton production. In 1984, cotton output nationwide reached 6.25 million tons, and procurement totaled 5.96 million tons. Then the state decided to change from monopoly procurement to fixed contract procurement. In 1985, it instituted fixed procurement obtaining 4.25 million tons of cotton. As a result of the system change plus the effect of natural disasters, cotton output in 1985 fell 4.14 million tons, and the amount procured fell 3.49 million tons. In 1986, the excess price ratio for cotton was lowered, but output continued to fall to only 3.54 million tons, 3.1 million tons of which the state procured. At the same time, as a result of the furious building and coming on stream of cotton yarn plants outside plan that had been encouraged by the bumper cotton harvests of the early 1980s, statistics from some provinces and autonomous regions show that more than 700 new cotton yarn plants having more than 3 million spindles were built and went into production by the end of 1986. These required more than 500,000 tons of cotton annually. Furthermore, changes in the international market situation stimulated a gradual upturn in cotton production and procurement. Fourth was operating unit losses attributable to government policies. State cotton subsidies created losses attributable to policy for supply and marketing cooperative cotton and hemp companies dealing in cotton. In addition, cotton storage expenses also made it very difficult for cotton and hemp companies to transform their operating mechanisms to enter markets. In principle, interest on money used for cotton storage is to be paid proportionally by the central government and provincial governments. In fact, however, this is very difficult to do, and the storage costs increase the cotton dealers' burdens. Fifth is difficulty finding funds for use in cotton procurement, which also adds to cotton business concerns' difficulties. The reaction of both buyers and sellers to IOUs is very intense. Sixth, the seasonal price differential and the regional price differential are too low a portion of the cotton transfer and allocation price. This makes it difficult to recoup storage and delivery costs. Interest paid to store one dan of cotton for one month is 3 yuan, but the state approves a price differential of only 5 yuan for handling, which is generally only sufficient to pay 40 days interest. Storage

beyond this period of time may result in a loss. Every cotton growing area enforces a uniform supply price, and the price differential between one region and another is manifested only in the recipient province's payment to the shipping province of an additional 25 yuan. Since this differential price is too small, some provinces either grow less cotton or have shifted to the local production of cotton yarn in an effort to seek higher value. Generally speaking, cotton yarn production increases the value of cotton scores of times. For example, several years ago Jiangsu Province produced between 18 million and 20 million dan of cotton each year. Today, however, it produces only about 10 million dan and has changed from being a shipping province to a recipient province in a shift toward the development of township and town textile industries. Seventh, the price differential for quality is too large a part of the cotton procurement price. This leads to procurement problems such as competition among grades and prices, forcing up grades to force up prices, and forcing down grades to force down prices. The price differential for each of seven grades of cotton is 18 yuan per dan; thus, ascertaining grade becomes an important and not easily determinable problem in procurement. Set too low, the peasants suffer, and their interest in growing and selling cotton falls. Set too high, the country loses, and the production of downstream products is hurt. Eighth is the conflict between uniform plan allocation and the rational movement of resources. The cotton and hemp companies allocate and transfer cotton according to state plan, but a hiatus between plan and actual needs may occur in practice, and plan adjustments frequently lag behind actual changes. As a result, the needs of customers who have a plan quota but lack the money to pay for it, and of customers who have the money to pay but do not have a plan quota are not met; thus, rational use of cotton resources becomes difficult. The allocation of cotton at parity price provides the textile industry with parity price raw materials, thereby causing, to a certain extent, the headlong development of spinning mills. The building of new mills and the creation of relative surplus processing capacity leads to competition among mills to obtain raw materials. The foregoing problems result largely from institutional frictions; thus, the cotton circulation system needs reform. Decontrol of the cotton market is imperative.

## II. Choices and an Analysis of the Pros and Cons of Cotton Market Decontrol

A series of problems exist today in China's cotton circulation system that limit full use and development of the productivity of associated industries. The goal in decontrol of the cotton market is to use the market as the main means of allocating sources of supply to solve problems involving cotton grower returns, operating enterprises' losses, the state's subsidy burdens, and readjustment of the textile industry structure.

The cotton market has two sides. One is the primary cotton market, meaning the cotton procurement market, i.e., the markets in which cotton is sold. The second is

the secondary cotton market, meaning the cotton wholesale market, i.e., the markets in which cotton is bought. Correspondingly, two choices exist in the opening of the cotton market. One is simultaneous decontrol of cotton procurement markets and cotton wholesale markets, and the other is to control cotton procurement markets but decontrol cotton wholesale markets. We believe the second proposal should be adopted, namely controlling the primary cotton markets while decontrolling the cotton wholesale markets.

#### (1) Control and Decontrol of Cotton Procurement Markets.

Benefits from the decontrol of cotton procurement markets are obvious. First, there is still an overall comparative cotton shortage in China today. By decontrolling procurement markets, the price of cotton would rise rapidly within a short period of time, bringing supply in balance with demand. The rise in prices would change the price ratio between grain and cotton, would change the relative returns from the growing of cotton and the growing of other cash crops, would increase cotton growers' income, and would stabilize cotton grower production. Second, the flow of cotton through many channels would provide spinning mills more channels through which they could obtain resources, thereby solving some of the problems under the traditional system of meshing allocation and transfer plans with actual needs. Third, decontrol of procurement markets would help the supply and marketing cooperative cotton and hemp companies transform their operating mechanisms to enter the market and take part in competition. Fourth, the national treasury could save the cotton procurement subsidies and awards in kind, thereby reducing some of its burden.

Nevertheless, decontrol of cotton procurement markets would also give rise to some serious problems that might even have a deadly effect on the entire cotton production, trading, and consumption process. First is the problem of how the existing supply and marketing cooperative cotton and hemp companies' procurement stations could be used effectively. For a long time, supply and marketing cooperatives have been mandated by the state to take charge of the buying and selling of cotton. After several decades of development, the supply and marketing cooperative cotton and hemp corporation company now has 15,000 cotton procurement stations and more than 2,000 cotton ginning mills with a 6 million ton cotton procurement and processing capacity, required storage facilities and scores of large transfer stations, and a more than 700,000 strong corps of staff members and workers. It also has copious experience in cotton dealing and great economic strength. With the decontrol of procurement markets, other channels would be bound to develop some of their own procurement stations and provide corresponding numbers of personnel and equipment. For society as a whole, this would inevitably mean a certain amount of idleness and waste of various inputs in procurement markets. Second is the

problem of administrative interference in cotton procurement. Decontrol of procurement markets before the change in government functions is completed might easily result in local governments using the administrative power they hold to buy cotton to supply small local textile mills. The returns from dealing in cotton may sometimes give people a false picture of the rich profits to be gained, and this is the main reason such a situation might develop. Most of the equipment in small textile plants comes from the updating of equipment in the country's mainline spinning mills (though state regulations provide that such equipment should be scrapped rather than resold). This results in the overbuilding of spinning mills locally, surplus processing capacity, and competition for sources of supply. Third is the problem of rational flow of cotton resources. Local government intrusion into the cotton flow and blockading of sources of supply to ensure a supply of raw materials for small local mills runs counter to the decontrol of cotton procurement markets and diminishes the original intention of administrative intervention. However, once cotton procurement is constrained by administrative zoning, the formation of a secondary market will be seriously impaired. Generally speaking, the procurement, storage and transportation, and processing conditions of mainline procurement firms, which is to say the cotton and hemp companies of supply and marketing cooperatives, are superb; mainline spinning enterprises' technical equipment is advanced; production efficiency is high; and costs are relatively low. They can offer a superior price for cotton, so they take in a substantial quantity of the better grades. Therefore, cotton sources of supply should flow to the cotton and hemp company procurement stations first, to the mainline spinning mills second, and finally to or through other channels to the ordinary mills in the shaping of a rational cotton flow. Fourth is the problem of ensuring cotton quality and protecting cotton resources. This is a problem whose effect is greatest and most far reaching. Cotton procurement is a task that is highly technical in nature. It requires both special knowledge and abundant experience, and it also requires a certain amount of technical equipment, lacking either of which it is difficult to ensure the quality of the cotton procured. With the decontrol of cotton procurement markets, the lack of personnel and equipment in the new procurement channels may lead to the destruction of sources of supply. If different grades of cotton are mixed together, poor quality cotton misrepresented to be fine quality cotton, and prices pushed up in competition for sources of supply, this will seriously impair cotton yarn and cotton cloth quality, and the entire textile industry. Therefore, we believe that the state should strictly control cotton procurement markets. It should continue the policy of commissioning supply and marketing cooperative cotton and hemp companies as the sole procurement agents, promoting their gradual specialization and the formation of companies specializing in cotton procurement to break the limitations of the administrative zoning setup.



Dealings in cotton should be run like a business, and be run as a counterpart to the wholesale cotton market system.

## (2) Decontrol of Wholesale Cotton Markets

Decontrol of wholesale cotton markets is the key to invigoration of cotton flow. In addition, a prerequisite for good operation of wholesale cotton markets is control of cotton procurement markets. Decontrol of wholesale cotton markets means abolishing the uniform cotton price and the supply method whereby cotton is allocated according to plan. It requires adoption of market trading and competitive prices in allocating cotton supplies among various customers. The specific actions required to decontrol wholesale cotton markets are as follows: First is the designation of supply and marketing cooperative cotton and hemp companies as state-appointed cotton wholesalers. This is premised on control of cotton procurement markets, only cotton and hemp companies being permitted to serve as sellers of cotton in wholesale markets, and trading with spinning mills everywhere, the two jointly making up main components of the cotton wholesale market. Abolition of cotton allocation and transfer, and decontrol of cotton prices is a necessary condition for spinning mills entry into the wholesale cotton market. Wholesale markets that are so designed does not mean that the wholesale cotton market is a sellers' monopoly in which only the buyer can compete. Actually, there are very many cotton and hemp companies in the country, and in the process of intensifying reform of the enterprise management system, these cotton and hemp companies will gradually become independent enterprises that develop specialization and mutually compete with each other. In this connection, when the state sets up wholesale cotton markets, it should consider the formation of a corresponding system, and forbid different cotton and hemp companies from fixing prices among themselves, in other words forming cartels with monopoly prices that obstruct competition. However, such a system should permit cotton and hemp companies to form partnerships among themselves or to merge. Once different companies form partnerships or mergers, they can only function as a unified enterprise in wholesale market trading. Second, supply and marketing cooperative cotton and hemp companies should gradually develop and build specialized cotton corporations. The state should use legislation to provide a legal basis for the founding of such specialized cotton companies, such legislation prescribing their specific function in the cotton circulation process. Many nations have such legally prescribed agencies that play a key role in the circulation of staple farm products. Examples include Australia's Wheat Board and Wool Board. Such organizations, which are termed statutory agencies, are set up in accordance with special bills, and are independent of the government. They mostly represent the peasants' interests, linking and coordinating relations between the government and peasant interest groups, and playing an important advisory role in the state's framing of attendant policies. China's supply and

marketing cooperative cotton and hemp companies have the conditions for becoming such specialized companies, and becoming specialized operating agencies in the wholesale cotton market and even specialized operating agencies in the flow of cotton. Third, the establishment of wholesale cotton markets should be considered in terms of a unified market, a nationwide unified wholesale cotton market ultimately being established. The main functions of wholesale cotton markets should be wholesale cotton trading, setting of cotton market prices, providing market information for cotton producers, dealers, and customers, and making decisions as necessary, but not doing over-the-counter trading. Since cotton is a staple farm product, both the number of traders and users is limited and fairly consistent. Since commodity cotton has a single use, it is fairly easy to supply a standard product, thereby making inspections of the commodity unnecessary at the time of trading. This creates the conditions for the formation of a unified wholesale market. Of course, the differential price of cotton from different areas and of different grades is reflected in a regional price differential (to offset shipping costs), and a quality price differential. The differential at different times when deals are made is reflected largely in seasonal price differences to offset storage costs. All these things will have an effect on the wholesale market price of cotton nationwide, but they certainly will not create an obstacle to the formation of a nationwide wholesale cotton market.

Decontrol of the wholesale cotton market sets the stage for solving problems in the traditional cotton procurement and marketing system. The cancellation of plan allocation and uniform prices solves the problem of supply and marketing cooperative cotton and hemp corporation losses attributable to policies, stirs their interest in doing business, genuinely transforms their operating mechanisms for entry into the market and to take responsibility for their own operations, and they may gradually move toward the development of companies specializing only in cotton. At the same time, the state treasury's subsidy burdens will also be greatly lightened. In addition, the cancellation of plan allocation and uniform prices satisfies customer requirements for a certain amount of cotton of certain quality to be supplied at a certain time. They may compete for sources of supply as their economic strength permits. This will promote structural changes in textile industries through market competition under state macroeconomic regulation and control. It will gradually reduce, and ultimately eliminate, state subsidization of the textile industry through the provision of raw materials at parity price to bring about an allocation of cotton supplies through the market.

Problems faced in decontrolling wholesale cotton markets and ways to solve them. First is the economic strength of the business concerns. Cotton is a staple farm product that is harvested seasonally and for which large amounts of money are needed for buying and selling. Under the present system, raising the money needed for



procurement frequently encounters difficulties, and there is no way that cotton can be procured through the issuance of IOUs to the peasants. Once cotton is marketed, if no money is available, IOUs will not solve the problem. Therefore, the money that business enterprises have becomes a matter affecting the normal operation of wholesale markets. In this regard, the state should consider vouching for the cotton and hemp companies, or for the specialized cotton companies into which they are developing, in their borrowing from banks, and it should consult with them on the specifics of credit to assure their requirements for money. Second is the cotton business risks associated with economic strength. Cotton is produced in a certain season but consumed year round; therefore, no matter at what point it is stored, storage expenses will be incurred. Not only do storage expenses have to be met, including interests on the money that is tied up in paying for storage, but the risks that cotton market price fluctuations occasion also have to be met. It is frequently very difficult for a single business concern to bear these risks. Thus, a risk sharing mechanism should be fashioned that is made up of cotton producers, dealers, customers, and the government. Consideration should be given to setting up an industrial fund to be used for evening out market price fluctuations, setting a cotton market price floor and ceiling as a means of protecting the minimum interests all along the line, to prevent large ups and downs at any point along the line, to stabilize operation of the entire industry, and to get maximum overall long-term benefit. Third is the impact on the textile industry. Decontrol of the cotton market, cancellation of uniform prices, elimination of the former supplying of raw materials at parity price, and raising of production costs will all have an impact on the spinning industry, and consequently on the entire textile industry, and even on the clothing industry. The state should formulate policies to adjust this trend in the aforesaid associated industries to create a level playing field for competition that promotes the development of those enterprises whose technical equipment is advanced, that possess certain efficiencies of scale, and whose management level is fairly high to optimize the industrial structure.

### (3) Future Cotton Market Development

Since cotton is such a staple farm product whose production cycle is fairly long, risks are fairly great in production, buying and selling, and consumption. Since China's cotton growers produce on a small scale, they face a relatively big investment risk; buyers and sellers of cotton may also face risks resulting from fluctuations in the market price, and storage costs; and spinning mills risk even more in being dependent on a consistent supply of cotton. Therefore, reform of the cotton procurement and marketing system, and development of wholesale markets should take into consideration use of futures trading, which transfers risk.

Control of cotton procurement markets, and decontrol of wholesale markets provide favorable conditions for future cotton market development. First of all, control of

the primary market helps verify and nurture the business ability and level of cotton buyers. It helps control cotton quality and protect cotton resources, and it provides a standardized product for entry into futures market trading. Second, the development of cotton purchasing concerns under macroeconomic regulation and control provides a fine precondition for verifying the qualifications of those entering the futures market to engage in cotton futures trading. Third, the cotton buying and selling agencies that pass the test of procurement markets—the supply and marketing cooperative cotton and hemp companies—can develop into specialized corporations, and gradually become agents or brokers in cotton futures markets in response to the situation in China in which cotton production is on a small scale and thus cannot easily engage directly in futures market trading. In addition, in the process of forming agent relationships, an equity relationship will be developed between cotton growers and the cotton and hemp companies or specialized cotton companies of a cooperative character that will take the form of investment in shares or shareholding. This will serve the interests of the cotton growers, and it will also reduce the number of middlemen involved in the flow of cotton.

Development of cotton futures markets will use the basic functions of futures markets. It will support cotton growers' production activities, cotton corporation's business activities, and spinning mills' consumption activities, transferring and spreading risk. At the same time, it will provide information for determining market prices and for production, buying and selling, and consumption decisions.

### III. Brief Conclusion

On the basis of the foregoing analysis, decontrol of cotton markets can fairly well solve the problems in the existing cotton procurement and marketing system. Its advantages are greater than its disadvantages. Decontrol methods should be control of cotton procurement markets, and decontrol of wholesale cotton markets. This can both get around the problems that occur in decontrolling procurement markets and attain the goals of decontrolled cotton markets. At the same time, it can provide favorable conditions for the development of cotton futures markets.

Realization of this conception will require time and a step-by-step process. To guard against too severe a shock on the spinning industry, consideration may be given to first decontrolling wholesale markets for cotton used outside plan. After the cotton and hemp companies form a fairly stable procurement and marketing relationship with the mainline spinning mills (and this relations may change as plan allocation changes), wholesale cotton markets may be completely decontrolled (so long as procurement markets remain controlled) to produce a means of allocating cotton resources the means changing from plan to market under macroeconomic regulation and control.

**Grain Trade Reform in Hunan, Hubei Surveyed**

93CE0411A Beijing ZHONGGUO NONGCUN JINGJI  
[CHINA'S RURAL ECONOMY] in Chinese  
20 Feb 93 pp 45-48

[Article by Ji Xirong (1323 1585 2837) and Dong Yiman (5516 0001 2581), State Statistical Commission Agricultural Economics Department, and Sun Meijun (1327 2734 0689), State Statistical Bureau Rural Survey Team: "Survey of Grain Circulatory Restructuring in Hunan and Hubei"]

**[Text] I. Background to the Initiation of Grain Reform and Principal Methodology**

Hunan and Hubei are major grain-producing provinces and have long been shackled by the old trading system, which irrationally has caused grain production and trading to bear ever greater burdens: Governments at all levels bear the heavy burden of subsidizing grain; grain enterprises groan under the mounting losses incurred in grain trading; and peasants are encumbered with the poor returns involved in growing grain. This vicious circle causes the burden to grow ever more onerous.

Grain reform thus is imperative, and now is the opportune time. First, social, political, and economic conditions across the country are stable, providing an excellent environment for grain reform. Second, grain is plentiful, as Hunan and Hubei both have stocks of more than 10 billion jin. Third, market prices for grain are declining amidst general stability and basically are in line with, even lower than, state prices. Fourth, in the wake of economic development, urban-resident living standards have risen sharply in recent years, so residents' ability to cope with grain-price reform has improved. Surveys conducted in the two provinces show that outlays for grain account for only about five percent of residents' total consumption expenditure. All quarters agree that now is the opportune moment to effect grain reform and that we should accelerate the pace.

The reform programs initiated throughout Hunan and in some Hubei counties (and cities) comprise the following principal elements.

1. Procurement, sales, and prices have been decontrolled across the board, and supply and demand are regulated primarily via the marketplace, subject to state macroscopic control. As for procurement, Hunan abolished fixed quotas as of 1 January 1993 and let pricing follow market rates. Most Hubei counties (cities) effecting decontrol have also abandoned such quotas, letting grain departments sign contracts of intent setting fixed procurement volumes but not fixed prices, with the latter to be determined by the marketplace. Agricultural taxes are still collected in kind by grain departments.

As for sales, parity-priced rationing has been abolished; a new approach of ensuring supply at market rates has been implemented; reserve quotas maintained to cover purchases employing grain coupons, grain tickets, and

resident grain permits have been abolished; and all such coupons, tickets, permits, and the like have been ordered removed from circulation.

2. Parity-priced allotment quotas have been abolished. Hunan, following decontrol, has eliminated planning assigning responsibility for allotting parity-priced grain while continuing to implement, in accordance with national regulation, planning for special state reserves, State Council market regulation grain, state circulating grain, and provincial reserves. Hubei cities and counties effecting decontrol have also abolished grain remittance quotas.

3. The preferential policy of providing "three linked sales" has been abolished. Hunan has ordered termination of parity-priced supply of producer goods and materials to peasants under this program and allowed the prices thereof to be set by the marketplace. In Hubei, Hanchuan County has replaced parity pricing with composite pricing, with the rate fixed by the county government, and replaced advance payment for future procurement with loans issued by the county agricultural bank and credit cooperative. Shishou City has abolished the "three linked sales," substituting procurement contracts signed with peasants to provide preferential supply of chemical fertilizer and diesel fuel at rates lower than market levels but higher than parity ones and to provide low-interest loans.

4. Price subsidies for urban residents have been implemented. Upon effecting decontrol, all localities have implemented price subsidies in accordance with the principle of burden sharing by the state, enterprises, and individuals. Generally speaking, subsidies for employees of administrative and institutional enterprises are to be borne by government budgets and those for enterprise employees by the firms themselves, with the outlays therefor permitted to be charged as costs.

5. Trading has been decontrolled and circulation invigorated. All localities effecting reform clearly have provided for diversification and invigoration of circulation. Grain departments are to transform their operational mechanisms as soon as possible, aggressively participate in market competition, and through competition assume the role of principal circulatory channel. Other state, collective, and private enterprises, as well as individual peasants, may also engage in grain retailing and wholesaling.

6. A grain risk-adjustment funding system has been established. Grain is an extraordinary commodity that directly affects the national economy and the people's livelihood, and the state should strengthen macroscopic control thereover. Thus localities have made establishment of grain risk-adjustment funding an important component of and approach to grain reform. Generally speaking, it has been ordered that municipal and county grain bureaus establish special accounts for government mandated allocation of grain subsidy, funding to cover the gap between parity and negotiated prices for and

discounted advance payments for future purchases of producer goods and materials involved in "three-linkage sales," tax abatements granted for negotiated-price trading within the respective city or county, and service fees by personnel "transferring out of agriculture" and that these accounts and funds be controlled by governments and used for special purposes, such as stabilizing grain prices during unusual harvests, supporting agricultural restructuring, defraying grain-price subsidies, and covering losses assumed by grain departments.

7. Preferential policies have been implemented to support grain-enterprise transformation. Hunan has proclaimed that, following reform, grain enterprises are to assume sole responsibility for their profits and losses but that the provincial government will assume responsibility for ensuring payment of the wage bills for the firms' employees and of the costs and interest payments involved in handling special central grain reserves, state circulating grain, and provincial reserves. The province has also ordered a moratorium on all taxes, save those on bonuses, levied on grain enterprises or firms that develop therefrom for three years following transformation thereof and that preferential interest rates on bank loans extended to grain enterprises be continued.

## II. Popular Response to Grain Reform and the Latter's Effect on Socioeconomic Life

### A. Popular Response

1. Urban residents have reacted stably. As the economy has grown in recent years, employee incomes have risen markedly, and residents' financial ability to cope with price reform has steadily improved. Many residents report that grain is abundant, markets are booming, prices are declining amidst stability, and good varieties and quality grain are readily available at reasonable prices, making things much more convenient than in the past. However, a small number of residents supporting many dependents indicate that reform has increased their expenditure on grain and reduced their living standards.

2. The response of rural cadres and masses is mixed. They believe that only in the wake of reform have peasants achieved true autonomy in production and trading, letting them grow whatever earns money. But they also feel that the government pressed for sales when grain was dear, but has abolished procurement quotas now that grain is hard to sell, and that it is peasants who ultimately have suffered through these policy swings. Rural cadres commonly report that, while they no longer have to press planting, procurement, and sales of grain, price reform has made their work of collecting withholdings for collectives and deductions from loan repayments extremely difficult. In the past cadres pressed the masses for grain, now it is for money. A change has occurred in the relationship between rural cadres and the masses.

### B. Effects of Grain Reform on Economic and Social Life

1. Grain reform has prompted government departments gradually to shift their focus in grain work from reliance on planning and administrative measures to reliance on markets. From planting to procurement, processing, storage, and sales, government departments used to effect their work through command planning. Grain reform has induced these agencies to respect and employ economic laws and to use the market mechanism in managing production and trading of grain. Relevant departments have also come to value market survey research and gradually learned to arrange production and trading in accordance with market demand.

2. Grain reform has induced peasants to restructure their productive operations, gradually shifting their orientation from the requirements of plans to market demand. First, after grain reform, the market mechanism began to play a role, and peasants responded to market change by readjusting cropping, diversifying, and vigorously developing production of high-quality produce. After Chenzhou City decontrolled grain prices, peasants there consciously readjusted cropping, reducing area sown to grain, expanding that devoted to cash crops, reducing that sown to low-quality early rice, and expanding that devoted to higher-quality middle and late rice. For the year, early-rice acreage declined by 100,000 mu, while that of higher-quality rice rose by 400,000 mu and of tobacco by 120,000 mu. Second, farm output has been restructured. According to reports from Hanchuan, that county has stressed readjustment of output in three major land types since the beginning of last fall: 25,000 mu of lake marshland were converted to development of aquatic industry; 6,000 mu of uplands were devoted to development of tea, fruit, and forestry industry; and 70,000 mu were selected for intercropping of vegetables with grain and cotton. While increasing revenue, these changes have also made the structure of farm output more rational. Third, rural productive activity has been restructured. A survey of 80 peasant families conducted in Hanchuan County revealed that before reform 202 workers, or 94.8 percent of the total, engaged in farming, and 11, or 5.2 percent, were employed in secondary or tertiary industry, whereas after reform the number of workers engaged in farming had fallen to 169, or 79.3 percent, while that employed in other occupations had risen to 44, or 20.7 percent.

3. Reform has prompted grain enterprises to transform their operational mechanisms, gradually moving from exclusive involvement in milling to diversification in response to market development. Decontrol of grain pricing and trading quickly drove grain departments and enterprises toward the marketplace and accelerated transformation of their operational mechanisms and modes. Grain departments and enterprises at all levels now pay close attention to operational transformation: Streamlining; diversification and opening avenues to production; stressing serial development of grain products; increasing network outlets for grain trade; and enhancing market competitiveness. Shishou City's Grain Bureau reports that, after grain reform, it effected

responsibility contracting to indemnify overall risk and for economic results. Of the 30 enterprises under the bureau, nine reported losses in 1991 totaling 7.03 million yuan and profits in 1992, following reform, totaling 1.095 million yuan, with seven firms greatly reducing their losses. State grain enterprises have received new vitality and maintained their leadership in grain trade.

4. Decontrol has broadened markets for grain processing industry. In the cities and counties that have effected decontrol, the program has not produced chain reaction or major shock to markets but rather has made grain-processing firms more flexible. These enterprises are shifting from large- to small-lot operations, from simple trading to integration of trading and processing, and from sourcing raw materials mainly from commercial enterprises to reliance on the marketplace. These firms are small and flexible and can engage in a variety of operations, in addition to processing. Decontrol, it should be said, has infused these entities with new vitality.

### III. Major Problems Confronting Grain Reform and Suggestions on How To Deal With Them

Grain reform is a major undertaking that is closely associated with government policy, has widespread impact, and in the transition from the old to the new inevitably will produce a series of interpretative, systemic, and operational problems. From the experience of Hunan and Hubei, we believe that the most salient problems involved in grain reform are as follows.

1. The reform abolished quotas and the "three linkage" preferences but was implemented during a buyer's market, when prices were low and procurement payments were delayed, exacerbating difficulty in selling grain and reducing peasant incomes. Hanchuan County in Hubei reports that in July of last year, after decontrol, the price for 50 kg of early rice had fallen to 18-19 yuan and of middle rice to 20-21 yuan, both lower than state fixed-procurement rates. Although market rates for wheat were higher than their fixed-quota rates, giving peasants throughout the county a total increase in earnings of 780,000 yuan, early and middle rice reduced earnings by a total of 6.18 million yuan. Thus grain farmers experienced a net loss in income of 5.4 million yuan, or seven-eight yuan per person, as a result of price decontrol. Extrapolating from this, peasants in grain-producing districts suffered a decline in income of 20-22 yuan per person as a result of price decontrol. Preliminary estimates place net per capita income of peasants throughout Hubei at 663 yuan for 1992, a rise of 6 percent over 1991 and a basic return to 1990 levels, but cash proceeds from the sale of grain fell by 13.3 yuan, reducing incentive for grain cultivation. It is reported that Hunan and Hubei are preparing to reduce their areas sown to grain by 5 and 3 million mu, respectively. These moves will have a considerable effect on grain production.

2. Grain departments bear heavy losses, much old and inferior grain, and heavy burdens, and enterprise transformation confronts numerous difficulties. Some localities report that grain enterprises approach the marketplace in a poor competitive position, bearing the "three major burdens" of heavy losses, much old grain, and many personnel on leave or in retirement. In the past, they had "no worry" but possessed few network outlets, and some of their stores, stations, and outlets were located in remote areas and had backward facilities. While grain departments in most localities have stressed vigorous diversification as an important approach to enterprise operational transformation, they everywhere despair of lack of experience, technology, expertise, and funding and of countless difficulties.

3. Peasant mentality, entrepreneurial knack, scientific and technical know-how, and the like still fall far short of the needs associated with the development of market economy in the wake of grain reform. Some peasants say: "Over the past few years we had no choice but to grow grain, but having done so we still were at a loss, as we could not sell it. After reform, production was even more difficult: They said let peasants seek markets, not the mayor, but where are we to find markets?"

4. The grain market system is underdeveloped, and circulation is clogged. The development of wholesale grain markets, whether regional or national, falls far short of the needs associated with restructuring of grain circulation in terms of regulatory measures, shipping, and other infrastructural concerns.

These problems warrant serious attention and must be resolved through aggressive, practical, and effective measures. For how they are handled not only has a direct bearing on smooth implementation of grain reform in these two provinces but also will have a major impact on the grain situation nationally. Therefore, we present the following suggestions.

1. While maintaining overall stability in grain output, we must guide peasants toward appropriate restructuring of variety and cropping mix. Overall, China's grain supply is basically in balance with her demand for grain, with a slight surplus, but there are problems with variety mix: Principally, paddy is in surplus while quality rice is insufficient. Moreover, it must be recognized that China's grain output is still constrained by natural conditions, that aggregate supply capacity remains weak, and per-capita supply is low. Strictly speaking, our grain problem remains unresolved. As for consumption levels, especially after improvement in rural consumption and gradual readjustment in variety and output mixes, overall supply will gradually grow tighter. Thus after reform we must adopt measures to ensure basic stability in grain output and prevent major slumps. We must adopt the general policy of "developing production, restructuring output, guiding consumption, and opening markets"; aggressively organize and guide the broad masses of peasants to adjust production in accordance with market demand; and while ensuring stability in

grain supply, vigorously develop high-yield, high-quality, and highly efficient grain varieties; appropriately increase production of beans, minor grains, and other superior varieties; appropriately restructure cropping; and improve economic results.

2. Stress resolution of the problem of losses. We must conduct a national accounting of losses, defining them and their funding, and handling them separately. Those resulting from government policy should be defrayed out of central finances. Those that cannot be resolved at this time should be accorded interest-payment moratoria and not slapped with penalties. Those that should have been subsidized by localities but have not should be defrayed out of local finances. Those that have resulted from enterprise operations should be absorbed by enterprises themselves. Furthermore, accumulated and new losses emanating from government policy must be detailed, in separate accounts, in government budgets and distinguished from those resulting from normal enterprise operations.

3. Appropriately resolve the problem of old and inferior grain. Much of the grain in storage across the country is old and inferior and is in desperate need of proper disposal. Hubei reports that its reserves include about 4 billion kg of unsaleable early indica rice, about half of the total, much of which has been stored for three years or more, even five, and is no longer edible. Thus we suggest that indica rice stored three years or more be permitted to be used as fodder, for processing, or be sold on markets for whatever price it can fetch. The gap between actual sales price and costs for such grain should be shared by the center, locality, and enterprise.

4. Strengthen development of market systems and open channels of trade. (1) Adopt measures accelerating development of primary markets in grain-producing districts and selectively and properly establish regional wholesale markets in major grain-producing regions and districts favorably endowed. (2) Guide peasants into the realm of circulation. We must aggressively organize peasants, rural economic cooperatives, transport-sales collectives, and individual entrepreneurs into entering the marketplace and into direct exchange of grain. To reduce peasant blindness and haphazardness in production and trading, we must aggressively develop integrated bodies combining production, supply, and sales in which peasants are willing to participate. (3) Improve grain allocation procedures and coordinate the relationship between producer and consumer districts. For the supply needed by consumer districts, we might employ contract or agency procurement and sales or let producer districts arrange product type and quantity in accordance with consumer-district demand, letting sales set output and economic form determine the cooperative relationship between producer and consumer district. (4) Strengthen grain infrastructural development, and improve storage, transport, and other facilities.

5. Enhance socialized service, and guide and help peasants to respond to the demands associated with the

development of market economy as quickly as possible. Grain trade and price reform is being conducted under "difficulty in selling grain, cotton, oil, and sugar." Thus many peasants feel at wits' end. Some do not recognize markets, others cannot see them accurately, still others recognize them but lack technical know-how, and still others see them and possess some know-how but lack capital. All of these situations must be resolved through strengthening of rural socialized service. In short, in the wake of grain reform we must not simply push peasants toward markets but, more importantly, aggressively guide and help peasants take new strides toward responding to development of market economy as quickly as possible.

### Potential GATT Impact on Farm Products Trade

Beijing ZHONGGUO NONGCUN JINGJI  
[CHINA'S RURAL ECONOMY] in Chinese  
No 3, 20 Mar 93 pp 19-24

[Article by Huang Shihong of Department of Policies, Laws and Regulations of Ministry of Commerce: "Potential GATT Impact on Trading of Agricultural Products"]

### [Text] I. GATT's Impact on Trading of China's Agricultural Products

Restoration of China's GATT status as a signatory nation is not only an extremely good opportunity, but also a fierce challenge to us. From the strategic point of view, it will create a major impact on China's trading of agricultural products, on structural reform of its national economy and on its strategy for industrial development.

#### A. Positive Impact

First, it is conducive to establishing a fairly stable new order on the trading of agricultural products. After the restoration of China's position in GATT, China's agricultural product market will dovetail with the international market and become an organic component part of the world market for agricultural products. This objectively demands that we eliminate departmental and local protectionism, and let farm products circulate without any obstruction and be freely imported and exported. This undoubtedly will help speed up the establishment and development of China's market mechanism, and gradually form a fairly stable new order in facilitating trading of agricultural products.

Second, it is conducive to exporting China's agricultural and processed products. China is the largest developing nation in the world and a large farming country with relatively abundant agricultural and wildlife resources. Agricultural and processed products always play a significant role in China's exports. According to statistics, the total value of exports during the 41 years prior to 1990 was \$460 billion of which the exports of agricultural and processed products made up about 50 percent. Among China's export commodities during 1990 only, the value of China's exported agricultural and processed products

totalled \$21.95 billion, making up 42.2 percent of the total value of exports. Also, the proportion of primary agricultural products is high. They have great latent potentials. It is estimated that they will grow even higher after China's "re-entry into GATT." As for the region to which China exports its agricultural products, we still have greater potential in increasing our exports. Over the past 10 years, China's main export market is still Asia. The proportion of the value of China's exports to Asia in the total export value of our nation increased from 63.3 percent in 1980 to 70.7 percent in 1989. This is to say that the proportion of China's agricultural product exported to other countries with high earnings remains small. After the restoration of China's position in GATT, we will be able to break through the past limitations, greatly develop our great plans in the world, and promote our export businesses in a diversified manner and in all dimensions.

Right now, the price of most of our agricultural products is generally lower than that in the world market. It helps our exports to compete with others. Meanwhile, China's farm products for export are low-valued primary products over a long period of time. It still has a great potential to develop. Prior to the 1960s, China's primary products made up 70 to 90 percent of the total exports, and they made up 50 to 75 percent in the 1980s. Since the reform and opening up to the outside world, a large number of intensively processed agricultural products with high added value have been developed. This helps a number of primary agricultural products become high valued products for exports after being processed. Comparing 1990 with 1980, we have found that the volume of export of food, vegetables, fruits and aquatic products has notably increased with the volume of vegetable exports doubled and that of peanuts and peanut products increased by four times. However, that is still not enough. There is plenty of room for development. With the proportion of high added valued products increasing and the ensuing high prices, we will become even more competitive and earn even more foreign exchange for the state.

In addition, all subsidies in support of agricultural production and their exports will be eliminated or greatly reduced, if the Eighth Round of Uruguay Multilateral Trade Talks succeeds. Then, the price of agricultural products will further increase and trading of farm products will be further liberalized on a global basis. All this helps China to export its agricultural production on a large scale.

Third, it is conducive to exporting China's agricultural products. Following the economic development and continuous increase in population after the founding of new China, the relation between the supply and demand in agricultural products is always relatively strained. To keep this kind of relation in balance and adjust the varieties, China has turned itself from a pure grain export nation into a pure grain import nation since 1960. After China enters the 1990s, China's population will continue to grow, and possibly there will emerge a third

population peak. Meantime, with the rapid development of the economy, the demand for farm products in society will become greater and greater. China will possibly increase its imports of agricultural products, especially grain crops. On the basis of the GATT principle on tariff cuts, free trading and mutual benefits, China will definitely be extended many preferential treatments by GATT signatory nations to import the agricultural products it needs and securing more grain crops at a lower price.

Fourth, it is conducive to solving international disputes on the trading of agricultural products. One of the GATT principles is to conciliate and solve trade disputes through negotiation. Disputes often flare up because of different interests in the course of promoting international trading on agricultural products. After six years of arduous talks since 1986, the "Uruguay Round of Negotiations" is essentially on the issue of subsidies on agricultural products. Disputes mainly arise because of different interests among the United States, European Community, the Keynesian Group and Japan. In the past when negotiations failed to solve trade disputes between China and some other countries, both sides often referred to the jointly recognized arbitration organ for arbitration in solving the dispute. However, these organs and the degree of arbitration often differ because of different trading partners and factories. This complicates the procedure and increases the cost for arbitration. With the continuous growth of imports and exports of agricultural products in China, trade disputes and conflicts on trading often crop up. Due to the fact that China's position in GATT has not yet been restored, nations that imported agricultural products from China often impose restrictions or retaliate by using anti-dumping measures, imposing quotas and so on. This has inflicted undeserved losses on China's agricultural products for export and caused unnecessary fluctuations in the production of farm produce in China. Once China's status in GATT is restored, in accordance with the principle of the most-favored nation treatment, various GATT signatories's preferential treatments, benefits, special privileges and exemptions in formulating their structure of imports and exports, measures, rules and regulations and procedures for the collection of custom duties and charges, in levying inland tax and other fees on imported commodities, and in working out decrees, regulations and stipulations for the domestic sale, transportation and distribution of imported goods will be unconditionally shared by all other GATT signatories. This may help get rid of some nations' quantitative quotas of a discriminative nature against the import of farm products from countries which practice centralized planned economy. This may also help reduce some nations' nontariff barriers such as import licenses, quotas, various public health and security clearances and complicated customs procedures against the import of China's agricultural products. When a dispute arises, we on the one hand can regard explicit GATT provisions as

our basis, while on the other hand, we can coordinate with GATT organizations and seek arbitration via such organizations.

Fifth, it helps China study and understand the international market prices on trading of agricultural products. GATT has a complete set of information for world economy and trading (including agricultural products). A signatory nation can have access to other member nations' trade policies, trade laws and regulations and statistic reference material; and understand the rules on international trading and the development in world economy. By understanding these situations, we may recognize the trend and the changes in trading in various nations and the world as a whole, and thus timely adjust the foreign trade policy on our agricultural products.

Sixth, it helps China make use of foreign capital, import technology, reform traditional agriculture, and develop high-yield and high-quality agricultural products. GATT is no longer satisfied at tariff and nontariff measures for traditional cargo trading. It has now extended its work to cover new realms such as investment measures, service trades and intellectual property rights. The formation of these new realms has provided China with the opportunity to develop its agricultural products. After China's return to GATT, it may use its status as a member nation and base itself on the principle of the most-favored-nation treatment and GATT's special provisions in dealing with developing nations to seek financial, technical and economic assistance of GATT member nations and international financial institutions to readjust its structure and turn out more high-quality products. Right now, a number of GATT member nations attach great importance to China's agricultural development and the improvement of its ecological balance and environment, and they are willing to provide China with financial and technical assistance. The World Bank and the International Monetary Fund have already cooperated with China's department for the circulation of grain and farm products and its Guangdong, Hainan, Yunnan and Inner Mongolia and other provinces and regions in improving conditions and environment for the circulation of such products and in developing agriculture to earn more foreign exchange.

#### **B. Negative Impact**

First, China will have to reduce tariffs and confront less expensive but high-quality agricultural products on the world market. GATT Article 28, appended Section 1 stipulates: various signatories should "negotiate with each other on the basis of mutual benefits to reduce tariffs and other expenses on a large scale, particularly these high tariffs which will even hinder the import of small quantity of products." Section 2 also stipulates: Negotiations may reduce tariffs, and affix the tariffs on the existing level. In principle, any attempt to avoid increasing the average liability to custom duties on a certain single item or several items should be regarded as something equivalent to lowering high tariffs. That is to say, under the conditions of mutual benefit, various

signatories should not raise tariffs once they are lowered. Meanwhile, GATT stipulates that the adoption of other trade measures to offset this kind of tariff is forbidden.

After China opens its door to the outside, a large amount of inexpensive and relatively fine quality agricultural products of the GATT member nations will definitely enter the market in China, giving fierce competition and shock to our farm produce. According to an estimate, products most affected will be sugar crops, tobacco, soybeans, tropical fruits, high-quality rice, poultry, rubber and lumber. Faced with fair competition, some high-priced but low-quality agricultural products in China may wither. As a result, this will affect employment and farmers' income in this sector of agriculture. In addition, some problems which we cannot conceive right now may crop up. For this, we must be mentally prepared and formulate relevant counter-measures to cope with such problems.

Second, once the Eighth Uruguay Round of Multilateral Trade Talks succeeds, the prices of the large amount of agricultural products imported into China may sharply rise. This is harmful to maintaining balance in the supply of domestic agricultural products. The core of this round of talks is on the issues of production and export subsidies and on quantitative restrictions in the production of oil-bearing crops. If this Uruguay round of talks succeeds, the food price will rise when subsidies to farm owners in European Community and the United States are reduced, and the 105 nations participating in this round of talks will have more opportunities to increase their exports. As for the developing nations, the prices for farm produce exports from lumber to tropical fruits will also increase. According to an estimate, the volume of world trade will increase by \$200 billion each year. Meantime, many new employment opportunities will be available.

Once Europe and the United States reach an agreement on trading of agricultural products at the "Uruguay Round of Talks," its direct impact on agricultural products is the price increase each year. Within the protectionist policy of the developed nations on agricultural products, rice ranks first, followed by sugar crops, wheat and other grain crops. In general, the prices of agricultural products will increase. According to an estimate made by the U.S. Department of Agriculture, the price of wheat may increase by 35 percent, that of rice and other grain crops by 25 percent, that of meat by 20 percent, that of sugar 50 percent, and that of milk products 65 percent. The price increase in agricultural products benefits nations that export only but harms those that import only. In face of free trading and the market which opens wider to the outside world, with no measures taken to protect agricultural products, and along with the increasingly higher production costs, the situation whereby the prices of our agricultural products are more competitive on the world market will rapidly diminish. Under pressure from foreign agricultural products, our domestic agricultural products will definitely be given a stern challenge. The agricultural product affected most



may possibly be grain crops. Since reform and opening up, the production cost of China's major grain crops witnessed an average growth rate of more than 10 percent in general. The increase of production cost in grain crops makes their price closer to that of the international grain market. The price of some of the grain crops is even higher than that on the world market. With agricultural products becoming more market-oriented and the continuous rise of the production costs, grain crops from other nations will possibly enter China in large quantity. This will inevitably pose a serious threat to China's grain production. China is a nation that imports grain only. This price increase on the grain market will inevitably increase China's outlay in foreign exchange. This is detrimental to maintaining balance in the supply and demand of grain crops in China.

Third, China's re-entry into GATT will have an impact on maintaining balance between the supply and the demand of agricultural products in our own country, and aggravate the imbalance between the supply and the demand of some agricultural products. Right now, the price of most of the farm products in China remains lower than that on the international market in general. After China's return to GATT and with the acquirement of many preferential treatments, our agricultural products for export with competitive price will increase on a fairly large scale. This no doubt will bring in a enormous amount of foreign exchange for China. However, if we are unable to expand our production and strengthen our macro-control on time, the supply of the same kind of products will decrease and be in short supply. Meanwhile, following the vigorous development of the economy and population growth, the greater demand in agricultural products will cause imbalance between the supply and demand of such products.

Fourth, right now China's system, policy, laws and regulations on the control of agricultural products are still far behind the GATT requirements. We need to adjust them in all dimensions as soon as possible. GATT believes that China's economic system (including agricultural products) is still far away from the basic GATT requirements. For this, some exceptional regulations, called "special protocol" have been added on the stipulated rights and responsibilities for the restoration of China's position in GATT. The main clauses specify that China must work out a schedule for price reform, enhance transparency in doing foreign trade, set up a system for period of examination and approval, and draw up requirements for structural control. This means that China must gradually abolish the preferential treatment for special economic zones and areas open to the outside world; and unify all laws and regulations on foreign trade throughout the country, and various policies in dealing with different nations. It must adjust the restrictive measures on the transportation, distribution, sale and use of imported products, and accept protective provisions of a selective nature prior to the completion of its price reform. These demands are comparatively harsh. It means that China's domestic market will

become less protective, and major readjustments have to be made on trading of agricultural products and on relevant policies. They are not only the prerequisites prior to China's re-entry into GATT, but also problems that will eventually confront us in reducing tariff and nontariff barriers after we return to GATT. In the course of undergoing the "major surgical operation," some unfavorable effects may prevail temporarily.

## II. Current Major Obstacles in Returning to GATT

(1). The existing system for the circulation of agricultural products is deficient. Over a protracted period of time, the agricultural department is in charge of production, while the commercial department in charge of circulation and the domestic market, and the foreign trade department in charge of imports and exports. This pattern of each department working on its own is deep-rooted. Since the reform and opening up in 1978, there are no fundamental changes, although some changes did take place. Those who are in charge of production know nothing about circulation, those in charge of domestic trading do not understand foreign trade, and those who engage in foreign trade are not familiar with production and domestic trading. Laterally the central administration is out of line with the local one. Many localities set up barriers to impede the circulation of agricultural products, refuse to mend their ways in despite of repeated orders to ban such practice, and charge miscellaneous fees at random. This has split the market and made it difficult to form an unified large domestic market and to produce and circulate farm products. Under this condition, it is necessary to link up with the international market, and form a large unified market by connecting the world market with the domestic one. Efforts must be made to fundamentally change the existing system for the circulation of agricultural products.

(2) Small-scale agricultural production fails to meet demands of the large world market. The large prosperous market demands that agriculture be developed on an appropriate scale to meet the requirements of the large market. However, our agriculture, on the whole, is mainly run by families on a small scale, although China has scored fairly promising developments in the production of farm products in recent years. This type of small-scale farming is being carried out with backward farming technology. Production costs are relatively high and farm produce lacks competitiveness. This type of small-scale family-run farming operation fails to keep pace with the changes between supply and demand on the huge market and with rapid circulation. Therefore, there are often fluctuations in the supply of agricultural products from time to time. This does not comply with GATT requirements.

(3) Market development remains imperfect. Since reform and opening up, substantial development has been made in China's farm product market. Markets are set up at the central, local and basic levels. This is a good beginning. However, most of the markets are not well



developed. Infrastructure such as facilities for storage, transportation and communications are not so ideal. Nor are market management and administration. After China returns to GATT and faces the world market, all these problems will become major limiting factors in developing the trading of agricultural products.

(4) There is a shortage of professionals with up-to-date knowledge in administration and management. China promoted planned product economy for a long time. Most of the trained people set their targets on practicing planned economy. However, China is in the historical stage of changing from planned economy to socialist market economy, from having enough to eat and wear to leading a comfortable life, from moderate growth to rapid growth, and from a closed economy to open economy. During this period of historical changes, they are not only confronted with the major topic of reshaping their concept, but they must also fulfill the arduous task in acquiring new knowledge. They must assimilate new scientific knowledge and use new methods in improving operation and administration. On the one hand, it is a requirement that we need in developing our own economy, while on the other hand, it is also our requirement in re-entering GATT. Right now, there seems to be a great shortage of trained people in the fields of technology, management and administration, particularly those who are good in improving management and administration and in promoting export-oriented economy. A pressing matter of the moment is to train qualified administrative and management personnel who are able to meet requirements in promoting market economy in modern times. Various government departments must pay full attention to this task.

### III. Counter-Measures To Be Made After China's Re-entry Into GATT and Proposal

After China's return to GATT, trading of agricultural products will face the following three major problems: 1. It is necessary to open up the farm produce market even wider. 2. It is necessary to gradually push the price of domestic farm produce closer to the world market price. 3. It is necessary to readjust the policy and management system on farm produce according to international practice. These three problems will have a major impact on China's trading of agricultural products, its economic development and its reform and opening up to the outside world. For this, we put forward the following counter-measures and proposals:

(1) It is essential to take the initiative to continuously adjust and reform the overall organizational organs and the management system for the circulation of farm products; and gradually try to meet with GATT requirements. Right now, the existing problems in China's system for the circulation of agricultural products are as follows:

As seen from various levels from the top to the bottom, all departments are filled with departmentalist flavor. Each of the industrial departments in the production of

farm products or the departments concerned act on its own. The whole system is not running smoothly with decentralized management and lack of coordination. It is difficult to unite as one in foreign trade. From the lateral point of view, the localistic way of thinking and protectionist trend are deep-rooted. Right now, there still exist various barriers in many localities, fleecing everyone who passes through, collecting charges at random and impeding the circulation of agricultural products. Thus, it becomes difficult to let farm products flow freely and form an unified market. If we do not change this situation as soon as possible, China will not be able to make good use of the favorable conditions provided by GATT in developing trading of agricultural products. On the contrary, it will find it difficult to deal with the unfavorable factors caused by China's return to GATT in developing trading of farm products.

We suggest to set up as early as possible an overall organizational organ which integrates the production of farm and processed products with trading, and help China return to GATT. This organ is expected to offer three plans—a short-term one, a medium-term one and a long-term one. For the short-term plan, we must ensure overall stability while making minor readjustments. However, it is necessary to set up a special organ within the State Planning Commission and the Economic Affairs and Trading Office with the aim to unify policy decisions, provide consultation and make readjustments; to work out and formulate long-term and short-term plans for coordinating efforts in developing trading of agricultural and processed products; and to exercise macro-control over all departments concerned. As a functional organ of the state in charge of administering social businesses and promoting the circulation of agricultural products, the Minister of Commerce must develop a new-type of commerce, and reform the traditional business industry to make preparations for China's re-entry into GATT. We should carry out micro-transformation of the basic-level commercial enterprises (including ones which produce agricultural products), and truly achieve the task of relying on ourselves to make management decisions, assuming the responsibility for our own profits and losses, developing ourselves, and acting with restraint on our own. We must reform the system of appointing managers and factory directors, the contract system for workers and staff members and the shareholding system for enterprises. State shares can be controlled by the board of directors to increase the value of state properties. Small enterprises that produce agricultural and processed products may set up chain stores so as to give full play to the favorable conditions in working together as a group. Commercial establishments at the county level in many localities work under two different names, while using the same group of workers and staff members. They have achieved quite good results. We should summarize and promote their experience in this connection. According to an investigation conducted in Ninggou County, Anhui, profits were made by commercial, grain and supply and marketing departments after the aforementioned reform. The functional

departments in commerce at and above the county level should institute the system of "small-scale administration but large entity," and enterprises should develop themselves to form groups to increase their strength to compete with others on the world market. The state should delegate import and export decision-making power to farm produce circulating and other commercial departments with conditions so that they are able to manage their businesses in an unified way on both domestic and international markets. The medium-term plan concerns the trade department. The existing domestic and foreign trade organizations must be merged to engage in domestic and foreign trade on agricultural products or other businesses. The long-term plan involves the department of commercial affairs in control of social farm products by state-owned, collective, individual and private farms and of the domestic and foreign trade.

(2) It is essential to make full use of those GATT provisions that will benefit us. First, we must fully use GATT provisions which extend special treatment to developing nations. In the past, the West listed China as a nation under centralized planned economy. Under this situation, China will not enjoy flexible preferential treatment on tariff duties. Therefore, in various GATT talks, we always insist that China is a developing nation, the largest one in the world. Developing nations should not be treated in the same way as developed nations in terms of tariff cuts. Section 3 of GATT provisions stipulates: "To help them develop their economy, developing nations need to flexibly use tariff duties to protect themselves. Especially they need to set the tariffs at a certain level so as to ensure their revenues." Section 8 of Article 36 in Supplementary Provision 9 again stipulates: "In the course of trade talks, developed nations should not expect developing signatories to contribute something which conflict with their own development and needs in financial affairs and trading." That is to say, in talks on tariff rates, developed nations should not expect developing nations to make tariff cuts which run counter to their development and to their needs in financial affairs and trading.

Second, it is necessary to use exceptional cases to adequately protect China's own farm products. GATT Article 8 stipulates: Quota, license or other measures to restrict imports are not permitted. However, under this major precondition, there are three exceptions. The third one is that the import of certain types of agricultural products can be restricted under the following three conditions: 1. Imports of a certain type of agricultural product can be restricted, if a nation limits the production or marketing of such agricultural product. For example, China limits the acreage sown to paddy rice and cotton. Thus, it may limit the imports of paddy rice and cotton at the same time. 2. If a nation supplies products at a subsidized price or free of charge to people of a certain category to solve the problem of domestic surplus products, it has a reason to limit imports. 3. A nation may limit the imports of animal products, if it

limits the production of such animal products. For example, if the number of hogs in stock exceeds the needs, our government can adopt measures to limit production, and restrict the import of hogs or pork.

Three, we must strive to maintain elasticity of our tariff structure. GATT Article 8 is another important provision that we may use. It stipulates that a signatory nation whose economy is "in a developing stage" or "in a primary stage of development" and which "can only maintain a low living standard" has the right to maintain elasticity of its tariff structure to establish or speed up the development of a certain industry. The so-called elasticity means that these signatory nations may act first and report afterwards. The compensation they make need not be very rational as long as they have tried their best. Four, we may act according to GATT article 19 that a nation may adopt measures to limit imports when the tariff cuts lead to sharp increases in import, and may act first and report afterwards.

(3) It is essential to continue reform of the foreign trade system, and establish a trade system which is compatible with the operation mechanism of China's socialist market economy and with the international trading regulations.

First, we should establish an economic system with the market mechanism in full operation. We should genuinely push enterprises to become market-oriented and ensure that they arrange their production according to the requirements of the domestic and international markets. Meanwhile, this economic system should be indirectly controlled by the government to gradually help our economic system meet with international standards.

Second, we should set up an enterprise system of self-management. After China's return to GATT, China's domestic market will be more closely connected with the international market. It is certain that our enterprises will have to participate in international competition. Only by helping enterprises increase their competitiveness on the world market and enhance their ability in earning foreign exchange through exports, can they avoid losses when China makes promises on tariff duties, quantitative import restrictions, quota and license system, national treatment, one rate of exchange and export subsidies. In addition enterprises must also develop themselves and grow in the course of international trading. In today's world, only by letting enterprises maintain close touch with the market, make their own management decisions and compete with others on an equal basis, can they enhance their competitiveness and promote the development of farm produce trading.

Third, we must separate the functions of government and enterprises. When the government changes its functions, enterprises are no longer subsidiaries of the government at the higher level. We must establish a foreign trade system to indirectly control the enterprises.

Fourth, we must pay particular attention to reforming the price and tax systems. The issue of farm produce

price is of great importance to China's seat in GATT. If a market-directed price system is not formed, there is no way to use tariff duties as a lever, and it will be impossible to rely on the price mechanism to adjust the trade protection measures and shift our emphasis on the use of quantitative restriction to the use of tariff duties and exchange rate to protect our farm products. If we are unable to establish rational and standard price and tax systems for our farm products, we should reform most of our means of adjustment in foreign trade and our tax system with emphasis on added value.

(4) As for GATT's unfavorable impact on agricultural products, we should, first of all, adopt relevant counter-measures. 1. Prior to the conclusion of the "Uruguay Round" of talks, we must extensively study GATT's relevant regulations and adopt appropriate protective measures for the production and trading of major agricultural products which will affect the national economy and people's livelihood; and quicken our pace in implementing the policy of "high yields, high quality and high-efficiency" in the development of agricultural products. We should place emphasis on resolving the issue of quality in farm products, and follow the GATT guideline so as to become more competitive. 2. After the conclusion of the "Uruguay Round" of talks, we must make rational use of the relevant GATT provisions to duly protect our agricultural products and offset the unfavorable effects in trading. 3. Beginning from now, we should select, support and develop those agricultural products

that play a significant role in domestic production and are closely related with the national economy. Meanwhile, we should adjust the production of those farm products that play an insignificant role in domestic production and are not closely connected with the national economy; and appropriately yield a part of our domestic market to other nations.

(5) We should pay full attention to legislative work for foreign trade, and manage foreign trade according to law. As of now, China's legislation on foreign trade remains a blank. Therefore, we suffer losses many times. We suffered many setbacks in carrying out trade activities which involve dumping and run counter to GATT regulations. When the cases were handled, we found ourselves without any legal ground. Cases involving dumping and anti-dumping are invariably in the trading of agricultural products. In fact, GATT Article 6, Section 2 stipulates: "To offset or prevent dumping, a signatory nation may levy tax on dumped products, not exceeding the margin of dumping of the product." In view of this, it is suggested that the state strengthen legislation on foreign trade. Laws and regulations such as the "Foreign Trade Law," "Anti-Dumping Law," "Trade Law on Farm Products," "Regulations on Import Management," "Procedures for Administration and Protection of New Industries," and "Rules for the Management of Enterprises Engaged in Foreign Trade" should be enacted as soon as possible.

**Rise of Yu Yongbo to GPD Director Examined**

93CM0273A Hong Kong KUANG-CHIAO CHING  
[WIDE ANGLE] in Chinese No 246,  
16 Mar 93 pp 50-52

[Article by Li Zhongluo (2621 0022 3157): "Battling From the Northeast to the Southwest—A Profile of Yu Yongbo (0060 3057 3134), Director, General Political Department of the People's Liberation Army"]

[Text] The General Political Department [GPD] is one of the departments in which the greatest high level military changes were made in the wake of the 14th Party Congress.

**Yu Yongbo, High Ranking Minority Nationality Military Leader**

The newly appointed member of the CPC Central Committee, Yu Yongbo was promoted from deputy director of the General Political Department to succeed Yang Baibing [2799 4101 0393] as the newly appointed director of the General Political Department of the PLA.

**Yu Yongbo: Tenth Director of the Chinese Communist General Political Department**

Since founding the PRC in October 1949 until the present, the directors of the General Political Department have been as follows: Luo Ronghuan [5012 2837 2719] (April 1950-December 1956); Tan Zheng [6223 2398] (December 1956-January 1961), Li Desheng [2621 1795 3932] (April 1970-December 1973), Zhang Chunqiao [1728 2505 2890] (January 1975-October 1976), Wei Guoqing [7279 0948 3237] (August 1977-September 1982), Yu Qiuli [0151 4428 6849] (September 1982-November 1987), Yang Baibing (November 1987-October 1992). Yu Yongbo is the 10th director of the GPD.

**Background in Fourth Field Army**

Yu Yongbo is 11 years younger than Yang Baibing, the former director of the GPD. He was born into a Manchu peasant family in Fuxian (now named Wadianfang City), Liaoning Province in 1931. In 1985, Fuxian was abolished, its administrative area merged into Wadianfang City. Liaoning is a province that has many racial communities. It has 41 minority nationalities in addition to the Han nationality. Liaoning is the birthplace of the Manchu people. More than 2.5 million Manchus, or more than half the Manchu population in all of China, live there. Yu Yongbo might be said to be one of a not very large number of high ranking minority military leaders in Communist China today.

**Joins Northeast Democratic United Army in 1947**

In early 1946, when the more than 130,000 man Chinese Communist Eighth Route Army and the New Fourth Army were steadily arriving in the Northeast, these armies, together with the former Northeast Anti-Japanese United Army, which was battling back into the

northeast with the Soviet Red Army, were redesignated the Northeast Democratic United Army by the Chinese Communists. At that time, Yu Yongbo's hometown, Fuxian, was part of the South Liaoning Military Sub-district. The military sub-district commander was Wu Ruilin [0709 3843 2651], and the political commissar was Lin Yishan [2651 0001 1472]. In June 1946, the Southern Liaoning Military Sub-District and some of the local forces in the Andong Military District were combined to form the Southern Liaoning Independent Division, in which Wu Ruilin and Lin Yishan served concurrently as division commander and political commissar. Deputy political commissars were Chen Yifan [7115 0001 0416] and Li Hui [2621 6540]. The chief of staff was Jin Zhenzhong [6855 2182 6988], and the political department director was Zhang Xiuchuan [1728 4423 1557].

In August 1947, the Liaoning Independent Regiment was renamed the South Manchuria Independent Division. In September of the same year, Yu Yongbo joined the South Manchuria Independent Division of the Northeast Democratic United Army (which was renamed the Northeast People's Liberation Army in January 1948) to begin his military career. Yu Yongbo was 16 years old at that time. Not long after joining the army, he took part in the Northeast Democratic United Army's 1947 autumn offensive.

**Successive Battles in Northeast, North, Central, and Southwest China**

In March 1948, the South Manchuria Independent Division was combined at Liaoyang with the Second Division of the Liaoning Military District and the Third Independent Division of the Andong Military District to form the Fifth Column of the Northeast PLA. Wan Yi [5502 3015] was the commander; Liu Xingyuan [0491 5281 0337] was political commissar; and Wu Ruilin was deputy commander. The South Manchuria Independent Division was renamed the 13th Division of the Fifth Column of Northeast People's PLA. The division commander was Xu Guofu [1776 0948 1133] and the political commissar was Li Hui.

In September 1948, Yu Yongbo joined the CPC, and soon thereafter he took part in the Shenyang Campaign in Liaoning Province. In November 1948, when all the Chinese Communist forces adopted uniform designations, the Fifth Column of the Northeast PLA was renamed the 42nd Army of the Chinese PLA. The 13th Division of the Fifth Column was also correspondingly renamed the 124th Division of the 42nd Army. Yu Yongbo was the deputy commander of the Regimental Propaganda Team of the 124th Division, which was part of the Fourth Army. Not long afterward, he went with the army through the Great Wall to take part in the Peip'ing-Tianjin Campaign. During April and May 1949, he took part in the campaigns to liberate Anyang and Xinxiang. Following founding of Communist China, in November 1949, the 42nd Army and the 47th and 50th armies of the Fourth Field Army assisted the main

forces of the Second Field Army in the southwest China campaign. In that campaign, the 42nd Army broke through the Nationalist Army's Sichuan-Hubei border defense line to occupy Xiushan, Yuyang, and Pengshui. It surrounded and annihilated Sung Hsi-lian's [1345 1585 3425] Combined Arms Army and Lo Kuang-wen's [5012 1639 2429] Army. Together with other units, it liberated Chongqing on 30 November 1949.

#### Takes Part in Bandit Suppression in Henan and Garrisoning the Border of Heilongjiang

Following the Southwest Campaign, the 42nd Army, which was under direct command of the Fourth Field Army (formerly under command of the 14th Corps of the Fourth Field Army), went to the Funiu Shan region of

western Hunan to wipe out the local bandits, after which it was transferred to garrison duty on the border of Heilongjiang Province.

Following the outbreak of the Korean War, in July 1950, the Central Military Commission decided to assemble in the northeast a total of more than 250,000 men in the 42nd, 38th, 39th, and 40th armies, as well as three artillery divisions from Heilongjiang, Henan, Guangdong, Guangxi, and Hunan provinces. In mid-August, they assembled in the southern part of the northeast region to form the Northeast Border Defense Army. On 8 October 1950, Mao Zedong ordered a change in the name of the Northeast Border Defense Army to Chinese People's Volunteers. (Peng Dehuai was commander and concurrently political commissar, Deng Hua [6772 5478] was deputy commander and concurrently deputy political commissar. Hong Xuezhai [3163 1331 2535] and Han Xianchu [7281 0341 2806] were deputy commanders. Xie Fang [6043 2455] was chief of staff, and Du Ping [2629 1627] was Political Department director.)

Newly Appointed Leaders of Communist China's Seven Military Regions

Military Region	Name	Position	Rank	Age	Last Previous Position	Entry on Duty Date
Beijing	Wang Chengbin [3769 2062 2430]	Commander	Lt. Gen.	64	Commander, Beijing Military Region	1945
	Gu Shanqing [6253 0810 1987]	Political Commissar	Lt. Gen.	61	Political Commissar, Chengdu Military Region	1947
Shenyang	Wang Ke [3769 0344]	Commander	Lt. Gen.	61	Deputy Commander, Lanzhou Military Region	1944
	Song Keda [1345 0344 6671]	Political Commissar	Lt. Gen.	64	Political Commissar, Shenyang Military Region	1944
Nanjing	Gu Hui [0942 6540]	Commander	Lt. Gen.	62	Commander, Nanjing Military Region	1947
	Liu Anyuan [0491 1344 0337]	Political Commissary	Lt. Gen.	65	Political Commissar, Second Artillery Corps	1945
Jinan	Zhang Taiheng [1728 1132 1854]	Commander	Lt. Gen.	61	Commander, Chengdu Military Region	1945
	Song Qingwei [1345 3237 3262]	Political Commissar	Lt. Gen.	63	Political Commissary, Jinan Military Region	1945
Guangzhou	Li Xilin [2621 1585]2651]	Commander	Lt. Gen.	62	Deputy Commander, Guangzhou Military Region	1945
	Shi Yuxiao [0670 3768 1321]	Political Commissar	Lt. Gen.	59	Political Commissary, Nanjing Military Region	1949
Chengdu	Li Jiulong [2621 0046 7893]	Commander	Lt. Gen.	63	Deputy Commander General Logistics Department	1945
	Zhang Gong [1728 1562]	Political Commissar	Lt. Gen.	57	Political Commissary, Beijing Military Region	1951
Lanzhou	Liu Jingsong [0491 4737 2646]	Commander		59	Commander, Shenyang Military Region	1961
	Cao Pengsheng [2580 5338 3932]	Political Commissar	Lt. Gen.	62	Political Commissar, Lanzhou Military Region	1946

#### Takes Part in Numerous Fierce Battles in Korean War

On 19 October 1950, the Chinese People's Volunteers were ordered to join the Anti-America, Aid Korea campaign. On that day, the 42nd Army left Ji'an in Jilin Province to cross the [Yalu] river into North Korea. At that time, the 42nd Army commander was Wu Ruilin

and the political commissar was Zhou Biao [0719 1753]. The deputy army commander was Hu Jicheng [5170 4949 2052]; the deputy political commissar was Guo Chengzhu [6753 2052 2691]; the chief of staff was Liao Zhongfu [1675 0112 4569]; and the Political Department director was Ding Guoyu [0002 0948 6877]. The commander of Yu Yongbo's 124th Division was Su

Kezhi [5685 0344 0037]; the political commissar was Li Tiezhong [2621 6993 0022]; the deputy division commander and concurrent chief of staff was Xiao Jianfei [5618 0494 7378]; and the Political Department director was Tang Conglie [3282 1783 3525]. During the war, Yu Yongbo was a clerical worker in the propaganda section of the regimental political department of the division. He participated in the first through the fourth campaigns, and in the 1951 summer and autumn defense campaign, as well as in the 1952 spring and summer campaign to consolidate positions. This included two battles that spread the name of the 124th division far and wide. The first was the blocking action at Hwangcho Ridge in the first campaign. This was in October 1950 after the "United Nations Army" headed by the United States occupied Hamhung and advanced toward both Kangkye and the Tomun River frontier. The 124th Division plus one regiment of the 126th Division, and one regiment and one battalion of artillery blocked the enemy's advance at Hwangcho Ridge. On 25 October, supported by aircraft and tanks, the First Division of the United States Army, and the Third Division and Capital Division of the South Korean Army launched a fierce and continuous attack on the Hwangcho Ridge fortifications. The 124th Division and the other defending units held fast in the face of danger, and fought valiantly in see-saw battles with the enemy forces. After 13 consecutive days and nights of fierce combat, they annihilated more than 2,770 enemy, halted the enemy forces' advance, and smashed the enemy forces' plans for encircling and occupying Kangkye. For this feat, Four Company of 372 Regiment of the 124th Division was termed the "Heroic Company of Hwangcho Ridge," and the entire division was decorated by the commander of the volunteers. The second battle was for Tosonghyon and Chechoi in the Third Campaign. At 0300 hours on 1 January 1951, the 124th Division broke through the South Korean army's Tsonghyon defense line southeast of Yonchon and advanced rapidly to smash South Korean army resistance at Kapyongpuk and Chechoi. Despite the threat of the enemy air force, it was still able to advance 40 kilometers in eight hours to occupy Ikoki and Sahyon south of Chechoi, as well as the high ground to the north, thereby cutting off the escape route for the South Korean Second Division and part of the Fifth Division, and launching an assault against the area to the south of Aki and to the north of Sangnamchong. At 0500 hours on 2 January 1951 in conjunction with the Volunteer 66th Army (Xiao Xinhuai [5619 2450 2849], commander; and Wang Zifeng [3769 4793 1496], political commissar), the 124th Division annihilated approximately three fleeing regiments and two artillery battalions. In this battle, more than 2,700 enemy troops were killed. In addition, 92 artillery pieces, more than 1,600 rifles and machine guns, and 49 motor vehicles were captured, the enemy's escape route in completion of the mission of cutting off the enemy's escape route and encircling and annihilating the enemy forces.

#### **More Than 30 Years Garrisoning Southern Borders After Return to China**

In November 1952, Yu Yongbo returned to China from North Korea with the 124th Division of the 42nd Army. He served as section chief of the Propaganda Section in the Political Department of the 124th Division of the 42nd Army. Subsequently, he was stationed for more than 30 years in various places in south China. He served as regimental political commissar in the 124th Division, 42nd Army Political Department Propaganda Office director, as deputy political commissary and concurrent director of the Political Department of the 124th Division, as director of the Guangzhou Military Region Headquarters Office, and as 42nd Army political commissar.

#### **Enters CPC Central Committee Following 13th Party Congress; Becomes Lieutenant General in 1988**

In June 1985, Deng Xiaoping reorganized the armed forces, merging the former 11 military regions into seven. At the same time, he made changes in the personnel in charge from the three armed forces headquarters down to the military regions. It was at that time that Yu Yongbo was promoted to the position of director of the Political Department of the Nanjing Military Region (The Nanjing Military Region commander was Xiang Shouzhi [0685 1343 1807] and the political commissar was Fu Kuqing [0265 1145 3237].) At the 13th Party Congress in November 1987, he became a member of the CPC Central Committee, indicating that he will continue to rise in the armed forces.

In September 1988, the PLA revived military ranks, Yu Yongbo becoming a lieutenant general.

#### **From Director of a Military Region Political Department to Director of the General Political Department**

In the wake of the 4 June Incident, more changes of personnel were made in the General Political Department. The first deputy director, Guo Linxiang [6753 2651 4382] retired and deputy director Zhou Keyu was transferred to a position as political commissar in the General Logistics Department. (General Logistics Department commissar Liu Anyuan, was transferred to the position of political commissar in the Second Artillery Corps, and the former political commissar Liu Lifeng [0491 4539 1409] retired.) In December 1989, Yu Yongbo was promoted to permanent deputy director of the General Political Department. Yu Yongbo's position as director of the Nanjing Military Region Political Department was taken over by Guan Baojing [7070 0202 2529], political commissar in the Tianjin Garrison Command.

At the 14th Party Congress in October 1992, he was again elected member of the CPC Central Committee, and at the First Plenary Session of the 14th Party Central Committee slightly later, he was made a member of the CPC Central Military Commission. In early November

1992, he replaced Yang Baibing as director of the General Political Department of the PLA.

**Description of Type 704 Artillery-Locating Radar**  
*93CM0267A Beijing BINGQI ZHISHI [ORDNANCE KNOWLEDGE] in Chinese No 2, 15 Mar 93 p 5*

[Article by Kan Jun (7074 6511): "China-Made 704 Artillery-Locating Fire-Correcting Radar"]

[Text] In conventional warfare, artillery fire is one of the important factors causing casualties among combat forces. Consequently, battlefield commanders usually do all possible to plot the location of enemy artillery emplacements so that they can use suppression weapons to attack and destroy them to gain control of the combat situation. But the capabilities of traditional reconnaissance means are extremely limited. To respond effectively to a battlefield environment of rather high artillery mobility in modern warfare, weapons position locating systems must be able to plot quickly and accurately the position of the enemy's weapons. China's 704 radar is a tactical artillery-locating and fire correcting radar at the advanced world level. The 704 radar is maneuverable, can be put up and taken down in a short period of time, and can be easily transported. Its performance compares favorably with that of the American Hughes Corporation-researched and developed AN/TPQ-36, which may be termed representative of the new radar technology of the 1980s.

**New Principles**

The 704 radar plots the position of the enemy's artillery by detecting the position of the projectiles. Its principal targets for detection are projectiles having a reflecting area of 0.001-0.1 square meters. Computer-controlled phased array radar and antenna beams are able to form a 90 degree electronic barrier. Once the target (the projectile) goes through this barrier, the radar locks on to it at once and begins to predict and track the target's position. During the tracking interval, it continues to search for new targets. Once a trajectory is plotted, the computer processes and calculates the data obtained. Then it uses the digital map in the computer for automatic altitude correction, or its uses the drum map for automatic manual altitude correction (to an accuracy of five meters) to obtain the target location coordinates data (either the coordinates for the enemy's artillery position or for our artillery shells detonation point). The system's target processing time is less than 10 seconds (i.e., the system reaction time). Under normal circumstances, the enemy's gun position may be determined before the projectile hits the ground.

**Makeup and Characteristics**

This system of is made of three parts: an antenna telecar, an operations and control car, and a 14 kw dual frequency conversion generator.

The 704 radar operates in the X wave band, its beam azimuth under computer control. Therefore, the beams can change direction within microseconds. During normal operation, the antenna remains in a fixed position to provide an extremely stable platform for tracking calibration. As a result, the radar can ensure both sufficient calibration accuracy, and can simultaneously seek, identify, and track eight different targets, while an ordinary mechanical scanning radar cannot calibrate accurately and track one target at the same time.

The radar's automatic electronic scanning range is: azimuth scan, plus or minus 45 degrees; high and low frequency scan, 5.5 degrees (used on projectile tracking); rate 4.5 times per second (scan completion plus or minus 45 degrees). This radar very well solves the conflict between scanning time and angle measurement accuracy. The dynamic range of its receiver is large and sensitivity is high. The signal processor uses a fairly sophisticated moving target detection technology that is very strong rain and noise jamming capability. Since the objects being detected are flying projectiles in the air, when in operation, the antenna beam points toward the tops of ground clutter; thus it is resistant to primary interference. The radar is also somewhat adaptable to the environment. It is able to operate during eight-force winds, and it is not damaged by 12-force winds. Various radar sub-systems coordinate operation, and man and machine interface well. Operation is straightforward, and the degree of automation is fairly high. Ordinarily only three people are needed to operate it using their hands and feet. Under special circumstances, one person can operate it with his hands and feet.

The radar also has the ability to transmit data by wire or by radio to the fire control center. Transmission range is no less than 25 kms, making tactical deployments more flexible. The 704 radar's distance from a 155 mm howitzer is 25 kms, and its distance from an 82 mortar is 12 kms. Its locating probability is 0.85, and its pointing accuracy is 35 meters. It can also detect the location of missiles.

This radar can be deployed to artillery battalions or brigades.

Although the operating range of the American AN/TPQ-37 radar is somewhat farther, since it operates in the S wave band, it has a huge antenna, which makes for poor mobility and inability to keep up with rapidly advancing troops. This point was demonstrated during the Gulf War. However, the AN/TPQ-36 radar, with its smaller antenna, can fulfill its mission quite well. America's Hughes Corporation is working on a more sophisticated locating radar that combines the best features of both the AN/TPQ-36 and the AN/TPQ-37 radars. Europe is also researching and developing a C wave band "cobra" artillery locating reconnaissance radar.

Since China's 704 radar is superior in performance in several regards, and particularly in its performance to

price ratio, it has found favor with customers abroad. The 704 radar and its sister products will be steadily developed.

### Continued Importance of Conventional Deterrents

93CM0268A Beijing XIANDAI BINGQI [MODERN WEAPONRY] in Chinese No 3, 8 Mar 93 pp 6-7

[Article by Qi Fa (0796 4099): "Build a Distinctively Chinese Conventional Deterrent"]

[Text]                      **Opportunity and Challenge**

### Changing World Military Strategy

European conventional forces talks in early 1990 brought about a rapid tilt in the east-west military balance. On 2 August 1990, the American president set forth a new defense strategy for the United States, the centerpiece of which was greater attention to a regional deterrent rather than global confrontation. The Gulf War served as a powerful stimulant for this strategy. It caused the United States to lose its head, greatly abetting America's ambition to act as an international policeman. The dissolution of the former Soviet Union in 1991 resulted in America's loss of its adversary for hegemony, and resulted in an intense expansion of America's vain ambition to realize single pole hegemony. The Pentagon announced that, beginning in 1993, the United States would use a "basic forces plan" in the pursuit of a "new regional national defense strategy," meaning conventional limited wars abroad in a situation of mutual mobile nuclear deterrence. Clearly, the dismemberment of the former Soviet Union, and the change in America's strategy demolished the dangerous situation of a conventional world war in a situation of mutual nuclear deterrence. Now that this old pattern has been demolished but a new pattern has not taken shape to replace it, a military strategy adjustment period on a world scale is bound to occur.

### Conventional Limited Wars Require Conventional Deterrence

Deterrence consists of nuclear deterrence and conventional deterrence. Ever since the United States began nuclear blackmail, with the formation of a nuclear power balance between the USSR and the United States—and particularly with the rise of several nuclear powers—both nuclear wars and conventional world wars have been limited. In this sense, mutual nuclear deterrence has played a role. However, the string of large and small wars that have continuously occurred since World War II show that the deterrence of conventional limited wars and armed clashes by the nuclear deterrent is not marked. On the contrary, the technological level of conventional weapons plays a major role. During the early and mid-1980s, the United States and NATO proposed the concept of conventional deterrence,

meaning the use of high technology weapons as a means of forcing troops to submit without warfare. During the Gulf War, high technology weapons occupied the limelight to the extreme, creating, to a certain extent, a deterrence comparable to the psychological pressure that the explosion of the atom bomb on Hiroshima created. Clearly, nuclear deterrence is required to deter nuclear war and world war, and conventional deterrence is needed for conventional limited wars.

### Cherish Opportunities; Meet Challenges

The dismemberment of the former Soviet Union, and the change in America's military strategy mean that the possibility of a world war has further declined dramatically. It means a slowing for America, which already possesses superiority in weapons technology, in the degree of urgency to replace and the speed of replacement of existing weapons with a new generation of high technology weapons. It also means that world military strategy will be in a period of flux while the pattern of limited conventional warfare is being adjusted, which will affect all nations. During the near term, no world war will occur, and the possibility of aggression against China by an outside enemy is not great. This is a once in a blue moon opportunity for us.

However, America's reckless ambition to be international policeman and international hegemon means that if China is threatened militarily, no matter how large the scale, China will be influenced by America, this "old adversary and new friend." Moreover, the dismemberment of the former Soviet Union, and the change in America's strategy means that the world is developing more toward multi-polarity. Where formerly two hegemonies confronted each other, today, multiple powers have risen and the quest for regional hegemony will become more and more intense. The threat around the borders of China will also increase markedly. For a long time, India has pursued a regional strategy in Asia of resistance in the north, advance to the west, and movement to the south. The speed of Japan's conventional weapons development and armament in recent years far exceeds in both quantity and quality its national defense needs. Territorial disputes and contention over maritime rights and interests exist between Vietnam and China. Certain members of ASEAN attempt in vain to encroach on China's Spratly Islands [Nansha] territory. On Taiwan, military strength is increasing, Taiwan independence is gaining ground, and outside powers are providing support. All these things create a threat to the integrity of Chinese territory that cannot be ignored.

We love peace, and China's building of socialism requires a peaceful environment, but peace is decidedly not a matter for wishful thinking. To safeguard peace, and convey reform and the opening to the outside world, we must seize opportunities and face challenges. We must employ China's distinctive conventional deterrent, using no change to deal with myriad changes.



## Countermeasures and Actions

### Cursory Analysis of Threats

During this current period of flux in world military strategy when a change in limited conventional warfare is underway, should a military threat to China occur, the form of warfare would be mainly border war in which counterattack in self-defense would be the main component. The key to containment of a border war lies in the building of a distinctively Chinese conventional deterrent.

Ours is a large socialist nation that has a vast territory and a huge population. As China's defensive strength increases, neighboring countries will not blithely resort to arms against us. However, should an enemy from farther afield commit aggression, a limited conventional war when the intervention of a major power poses a tactical nuclear threat cannot be ruled out. Therefore, a distinctively China conventional deterrent must be built along with a distinctively Chinese mobile nuclear deterrent.

The Gulf War demonstrated that, in one respect, the essence of conventional deterrence is high technology deterrence. Therefore, use of high and new technology to transform conventional weapons in a way that fits in with China's circumstances is a basic component in the building of a distinctively Chinese conventional deterrent.

### Limited Objectives

The greatest difference between conventional deterrence and nuclear deterrence lies in conventional deterrence being not only a deterrent technique but an actual warfare technique. Given the current external environment and China's specific conditions, a distinctively Chinese conventional deterrent would have only limited objectives in a limited conventional war:

Definite deterrence so that an enemy intent on aggression would not dare rashly start a war with China.  
Even if a war maniac started a war against us, we would be able to withstand the first strike.  
Enable us to mount a rapid counter attack.

The ability to make the enemy pay a heavy price through the launching of a counterattack that would frighten the enemy so he would not dare continue resort to arms against us.

### Preliminary Examination of Implementation Methods

The high technology weapons that the American forces used in the Gulf War were put into service during the 1980s. Comparatively speaking, a number of the weapons with which China's forces are equipped and models being researched are on a par with the high technology weapons of the 1980s. There is no need at all for us to belittle them. We must use these weapons as a basis and keep our eyes on the 21st century, leaping ahead to build a distinctively Chinese century-spanning conventional deterrent. We must use advances in military thinking to guide progress in conventional weapons technology.

The essence of Chinese socialism determines that "active defense" must be China's basic national policy. During this period of change in world military strategy, active defense in military thinking must denote major new development. We must enhance and intensify the experiences already gained in using advances in military thinking to guide and stimulate progress in conventional weapons technology. We must use distinctively Chinese military thinking to promote the creation of a distinctively Chinese conventional deterrent.

We must strive to combine organically the development of systems concepts with the application of successes in high and new technologies.

Every new weapon is a product of an organic synthesis of the development of a systems concept and the application of successes in high and new technologies. Development of the systems concept is the turnkey; application to high and new technologies is the method. Only when the development of a systems concept is truly successful can the application of high and new technology fit the creation of a separate high and new technology weapon.

We must emphasize overall performance and extremely effective weapons tuchu shashousjian [4499 0427 3010 2087 9505].

Direct observation of the Gulf War shows that America's conventional deterrence was in overall performance. During different stages of combat, the United States organized different weapons systems, each exhibiting its own special capabilities and each complementing the other in the fashioning of a total combat capability. At the same time, the United States also recognized that the key weapons in winning decisive victory were accurate guided missiles and night sighting equipment. This fully shows that given the many categories and kinds of conventional weapons, the fashioning of a conventional deterrent requires attention to the dialectical relationship between overall performance and key weapons. Although it was defeated, Iraq's Scud missiles created a serious threat to American forces, thus showing in one way the important deterrent position that key weapons hold.

We must start from the angle of waging a war of counterattack in self defense to build a conventional deterrent that is in keeping with China's circumstances. This means emphasizing overall performance and extremely effective weapons. Overall performance is reflected largely in being able to organize organically various kinds of advanced weapons to form different tactical systems, and effective weapons are key nuclear weapons used for the attainment of different tactical goals. The two together form an inseparable, distinctively Chinese, overall system.

China's weapons research has gone through several decades of furious struggle to produce the ability to research and develop complex weapons systems that are distinctively Chinese. In recent years, a large number of periodic achievements have been scored in high and new

weapons technology. We have the conditions to create new kinds of high and new technology weapons. As scientific research plans are activated, revised, and completed, China's conventional deterrent will be bound to take shape gradually through practice.

#### **PAP Commander on Improving Armed Police Work**

93CM0269B Beijing RENMIN GONGAN BAO  
in Chinese 25 Mar 93 p 1

[Article by He Tieguang (6320 6993 0342) and Mao Yongmei (7456 3057 2734): "People's Armed Police [PAP] Work Must Take a New Step Upward—An Interview With NPC Delegate and People's Armed Police Commander, Major General Ba Zhongtan"]

[Text] "In his Government Work Report, Premier Li Peng set forth the magnificent goal of a new step upward in the national economy during the next five years. In serving economic construction, what is the role of the PAP to be?" During an interview with the correspondent, PAP commander, Major General Ba Zhongtan said: "If the economy takes a new step upward, the PAP has to take a new step upward too."

The PAP is a new job for this major general who has served in the armed forces for more than 40 years. Just a little more than two months after his appointment to the position, Ba Zhongtan visited Beijing General Headquarters, and duty stations of the Beijing Second General Headquarters to investigate and study. He said: "I want to become thoroughly familiar with and understand the PAP within the shortest period of time."

Commander Ba told the correspondent: "The PAP is a military force with a public security mission. After the 14th Party Congress established the market economy system, some confused ideology remained in the forces that is extremely harmful. All officers and men in the PAP must diligently study the important remarks of Comrade Deng Xiaoping during his travels in south China, and they must arm their minds with the ideological theory of building a distinctively Chinese brand of socialism, maintaining a high degree of ideological unanimity with the CPC Central Committee. The PAP must not only protect but also take part in economic construction.

In the course of his grassroots investigations, Major General Ba Zhongtan found that the PAP's present equipment is fairly antiquated. He said: "Modernization of the PAP's communications and transportation equipment and weapons is extremely urgent in order to face an increasingly severe public order situation. The new PAP leadership teams will place further modernization of the PAP on their daily agenda of important things to do."

Commander Ba also said that "education and training are very important in improving the PAP's combat strength. Performance of duties and training complement each other; one must not be done at the expense of

the other. One must think about how arduous wartime life is and the necessity to do peacetime training well. Military unit education and training is a long-term strategic task to which CPC committees at all levels must devote a high degree of attention and work on ceaselessly. In the process of building a market economy in which great changes are made in the apportionment of returns, some officers and men are not content with military service. This situation is seriously hurting the building of the armed forces. Leadership teams at all levels must think of ways to improve the material life of officers and men and also make full use of the political strengths of the armed forces. They must publicize more the fine tradition of China's armed forces, and publicize more the spirit of making contributions. Party branches must use to the full their fortress role, cadres must play a role as leadership models, and strive to build the armed forces as the program requires."

#### **Gearing Military-Run Enterprises to Market Economy**

93CM0269A Beijing RENMIN GONGAN BAO  
in Chinese 25 Mar 93 p 1

[Article by Li Chunyan (2621 2504 5333), Huang Qunwen (7806 5028 2429) and Hu Xunjun (5170 6064 6511): "Fix Both Eyes on the Market—A Report From Military-Run Enterprises in Lingnan"]

[Text] Lingnan is a place in which the warm current of reform is surging. Caught up in the great tide of the market economy, which offers exceptional advantages, in which direction should the ship of enterprises run by the armed forces sail? How should they battle the wind and waves? This is a question that the decision makers and the rank and file of personnel in military enterprises in Lingnan must ponder.

#### **Need To Cut the Umbilicus Before Setting Sail**

Leaders at all levels in military-run enterprises in Lingnan have changed the mechanical application of policies from higher authority to which they were accustomed under a planned economy. They are boldly and intelligently guiding their enterprises in shooting rapids, detouring around hidden shoals, and making way through the waves.

For a while, military-run enterprises were tied to the armed forces by an umbilicus: Leaders at all levels held a concurrent position in an enterprise, creating too much administrative interference; overlapping administrative organizations meant the approval of one level after another had to be obtained to start a new project; those who understood enterprise operation had no decision making authority, while the decision makers did not work on the production front line... No wonder that some people said humorously: "Unless the umbilical cord is cut, the enterprise will always be an immature child."

No matter the fleeting pain, a sharp knife had to be used to sever the umbilicus. After conducting a wide-ranging investigation and study, and making a full validation, the Guangzhou Military Region's Logistics Department drew up "Thirty Articles on Accelerating and Continuing Enterprise Reform." It was the first unit in the entire armed forces to propose "five separations" for enterprises and military units: separation of enterprise ownership rights and operating rights; separation of enterprise administration and enterprise operation; separation of enterprise units and government agency operating units; separation of enterprise personnel and on-duty military personnel; and separation of enterprise designations from military unit designations and code numbers. The inauguration of this new policy attracted the serious attention of General Headquarters. The Central Military Commission took the separation of military units from enterprises as a new policy for armed forces production and business dealings, promulgating it for application throughout the armed forces.

Effective leadership of enterprises by the administrative departments in charge was carried out largely through the formulation of correct policies. The units in charge of Lingnan's military enterprises got out of their offices and put to sea to observe the tides, check the currents, and look for navigation channels, and setting up a series of channel marker lights in uncharted waters. This means that following the separation of military units and enterprises, they promptly drew up a series of supplementary regulations to guide the movement of enterprises into markets. Following Comrade Deng Xiaoping's remarks during his travels in south China, they held meetings to analyze the new operations that were in the process of being built in China's economic system, very quickly inaugurating "Views on Accelerating the Pace of Military Region Production and Business Reform and Opening to the Outside World." This document, which had the character of law and regulations, turned over to enterprises authority over working personnel, operation decision-making authority, and authority for the distribution of economic returns, thereby moving subordinate enterprises to the path of the market economy ahead of schedule.

#### Put Away the Lasso

Lingnan's military enterprises have a lot of vitality and are strongly competitive. They have benefited from the judicious use of the whip wielded by leaders and organizations in charge at all levels.

Following reform and opening to the outside world, high buildings and plant workshops sprang up like mushrooms after a rain in the Zhu Jiang Delta, and the demand for cement increased dramatically. A certain warehouse that planned to operate a cement plant had to delay start-up because it had no money in the till. An individual entrepreneur and a nearby electric power supply unit that wanted to invest cooperated in the operation of a share system cement plant.

This was the first share system military enterprise to operate in Lingnan at that time, and many people did not know what to make of it. All sorts of discussions swirled about: "A military-run enterprise bound together with an individual entrepreneur. How can anyone be sure that it will not operate illegally under the military signboard?" But Lingnan's military enterprise leadership organ gave the green light. Whether the enterprise was a horse or a mule could be determined by leading it out and observing its actions. Helped by the money that the individual entrepreneur and the electric power supply unit brought to the warehouse, the cement plant very quickly began trial operation. Even before the fire-crackers were set off to announce opening for business, customers interested in buying cement hurried to the door. The cement plant could not meet demand, and it made a profit of more than 2 million yuan for the military unit.

Comrades in the unit in charge of military enterprises in Lingnan put it well when they said that several decades of a stereotyped planned economy caused us to form certain fixed ways of thinking and working. Mostly the lasso was used on enterprises; rarely the whip. This resulted in a lack of vim and vigor in enterprises. The establishment of a market economy requires that we not lightly repudiate some new things that are emerging as the times require. We should let them grow for a time, first letting them go, then guiding them, using guidance to help them go out on their own. Some people have vividly depicted this process as "first having a baby and then naming it."

Two-thirds of the Lingnan armed forces farms are located in special economic zones and in coastal areas opened to the outside world. They have always grown and marketed nothing but grain. What could be done to translate the potential advantage of their geographic location and resources into real wealth and economic advantages? Niutianyang, Tonghu, and Chikan farms inculcated a large scale agriculture outlook, taking the road of comprehensive development, diversification, and the integration of agriculture, industry, and business. By operating farms as externally oriented comprehensive economic development zones consisting largely of premium quality, high yield, and high return farms, and economic development zones composed mostly of industries, businesses, and the aquatic products breeding industry, a very heartening situation rapidly occurred of change from undiversified production to comprehensive operations, from extensive to intensive production, and from a product to a commodity economy.

#### No Equating of Authority With Rights

As markets gradually develop, more and more people understood that enterprise vitality comes, first of all, from having authority. The authorities in charge of Lingnan's military enterprises and leaders at all levels actively worked to delegate authority, but progress was difficult: There was delegation in principle but actual

retention; claiming to delegate but actual retention, and delegating today only to take back tomorrow.

The failure to delegate authority was related to the many benefits that possession of this authority brings. Examples were control of personnel authority, which facilitates planning for cadre cutbacks and restaffing; possession of project examination and approval authority, which permits taking hold of the "fattest" pieces of meat, retaining enterprises having the best returns for one's own control; control of financial planning authority, which permits the setting of high interest norms for enterprises, lacking which the "gold" that can be found at the tip of a pen that writes an approval signature may be lost. The authorities in charge of Lingnan's military enterprises eliminated all sorts of interference in an effort to get delegated authority to the places intended.

The Guangzhou Military Region's Logistics Department began with itself, taking the lead in delegating to enterprises some of the authority that it had earlier retained, and calling upon subordinate units to do likewise. At the same time, it organized work teams to conduct special investigations to solve problems with "intercepting" delegated authority and not having it reach the places intended.

After delegating authority, the authorities in charge of Lingnan's military enterprises assumed a "service" role, actively serving as high-ranking staff officers and assistants to enterprises. Slack market sales of the products of 7431 Plant mired the enterprise into difficulties. The authorities in charge reduced the plant's profit payments 20 percent and helped the plant both reform its system for apportioning returns and improve product quality. Within a short period of time, the plant again opened markets for its goods.